

**NOMINATIONS OF CAROLYN LEWIS GALLAGHER,
LOUIS J. GIULIANO, AND TONY HAMMOND**

HEARING

BEFORE THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

ON THE

NOMINATIONS OF CAROLYN LEWIS GALLAGHER, TO BE GOVERNOR,
U.S. POSTAL SERVICE; LOUIS J. GIULIANO, TO BE GOVERNOR, U.S.
POSTAL SERVICE; AND TONY HAMMOND TO BE COMMISSIONER,
POSTAL RATE COMMISSION

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CONTENTS

Opening statements:	Page
Senator Collins	1
Senator Warner	3

WITNESSES

THURSDAY, MAY 19, 2005

Hon. John Cornyn, a U.S. Senator from the State of Texas	4
Carolyn Lewis Gallagher, to be Governor, U.S. Postal Service	7
Louis J. Giuliani, to be Governor, U.S. Postal Service	6
Tony Hammond, to be Commissioner, Postal Rate Commission	7
Hon. Christopher S. Bond, a U.S. Senator from the State of Missouri	12

ALPHABETICAL LIST OF WITNESSES

Bond, Hon. Christopher S.:	
Testimony	12
Prepared statement	13
Cornyn, Hon. John:	
Testimony	4
Prepared statement	5
Gallagher, Carolyn Lewis:	
Testimony	6
Biographical and financial information	17
Pre-hearing Questions and Responses for the Record	31
Responses to post-hearing questions for Ms. Gallagher from:	
Senator Lautenberg	42
Senator Akaka	43
Senator Lieberman	46
Giuliano, Louis J.:	
Testimony	7
Biographical and financial information	48
Pre-hearing Questions and Responses for the Record	57
Responses to post-hearing questions for Mr. Giuliani from:	
Senator Akaka	67
Senator Lieberman	69
Hammond, Tony:	
Testimony	7
Prepared statement	8
Biographical and financial information	71
Pre-hearing Questions and Responses for the Record	78
Responses to post-hearing questions for Mr. Hammond from:	
Senator Akaka	89

NOMINATIONS OF CAROLYN LEWIS GALLAGHER, LOUIS J. GIULIANO, AND TONY HAMMOND

THURSDAY, MAY 19, 2005

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:18 a.m. in room SD-562, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins and Warner.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. The Committee will come to order.

The Committee will now consider the nominations of Carolyn Lewis Gallagher and Louis Giuliano to be Governors of the U.S. Postal Service and Tony Hammond to be a Commissioner of the Postal Rate Commission.

This Committee is very familiar with the many serious issues facing the Postal Service and has spent a great deal of time developing postal reform legislation.

The Board of Governors of the U.S. Postal Service is comparable to the Board of Governors of a corporation. The Board selects the CEO, in this case the Postmaster General, who then becomes the Board's tenth member.

The Board directs the exercise of powers of the Postal Service. It controls its expenditures, conducts long-range planning, and sets policy. The most important duty of the Board is to represent the public interest.

Carolyn Lewis Gallagher is an Austin, Texas business executive with an impressive record. She was named governor by the President through a recess appointment on November 3, 2004. Without confirmation, the appointment will expire at the end of this year.

She serves as a member of the Strategic Planning Committee and the Board's Governance Committee. Ms. Gallagher has strong private sector experience. She is currently an investor and adviser to several businesses and has some 20 years of experience in acquiring and growing companies.

In addition to her business background, she has a commitment to public service. President Bush also appointed her in 2003 to serve on the President's Commission on the U.S. Postal Service.

The Commission's report has been the foundation for the legislation that this Committee has drafted. It is very helpful to have someone who actually served on the Commission now be a member of the Board of Governors.

Louis Giuliano is Chairman of the Board of Directors of ITT Industries. He also was named a governor by President Bush through a recess appointment last November. He serves as Chairman of the Capital Projects Committee and is a member of the Audit and Finance Committee.

Mr. Giuliano has a strong private sector background also. As ITT Board Chairman, he is responsible for managing all aspects of Board activities and helping to set the strategic and operational direction of this Fortune 500 global industrial company.

Before becoming chairman, he served as President and Chief Executive Officer at IT&T and played a key role in improving the company's operating performance. He also has a number of charitable causes with which he is involved.

The Postal Rate Commission is an independent regulatory agency. The five commissioners review Postal Service requests for new domestic mail rates, fees, and classification. The Commission reviews these requests and then makes recommendations to the governors of the Postal Service.

In addition, the Commission may propose changes in mail classifications. It also investigates complaints of postal customers that are of national significance and it issues advisory opinions in response to Postal Service requests to substantially change postal services.

The Postal Rate Commission also hears from postal customers regarding decisions to close or consolidate post offices. For any of us who represent rural States, that is always a big issue.

Tony Hammond first became the Commissioner of the Postal Rate Commission by a recess appointment in 2002. Later that year, the Senate confirmed his appointment to a term expiring on October 14, 2004. So I do want to point out that Mr. Hammond has been previously confirmed.

Before being named to the Commission, Commissioner Hammond was owner and managing member of T. Hammond Company, a private consulting firm based in Arlington, Virginia. He has also served as senior vice president of a direct marketing firm and as senior consultant to Forbes 2000, Incorporated.

As Members of this Committee well know, the U.S. Postal Service is an essential part of our society and our economy. It is the linchpin of a \$900 billion mailing industry that employs more than nine million people.

We also know the fiscal challenges facing the Postal Service could threaten the future of affordable service. Each of these nominees appears to possess, without prejudging their responses, the knowledge, the experience, and the talents and commitment needed to strengthen the Postal Service.

I welcome them to the Committee today and I look forward to hearing their views.

We are very pleased today to be joined by distinguished members of the U.S. Senate who are going to introduce the nominees and we will start with Senator Warner.

OPENING STATEMENT OF SENATOR WARNER

Senator WARNER. Thank you very much, Madam Chairman. To expedite things here, you have given a very comprehensive biographical sketch of the nominees. I am privileged to be here on behalf of Mr. Giuliano of Virginia today who has been nominated to serve on the Board of Governors of the U.S. Postal Service.

As you said, Madam Chairman, the Board is responsible for directing the overall operation and developing a long-range plan to ensure the viability of the U.S. Postal Service, an institution that dates back to 1775.

And I cannot resist saying that during World War II, 1943, before I went in the Navy, I worked as a postal worker. There was a tremendous shortage. Postal workers by and large were in uniform and gone, so they had to hire a bunch of 16-year-olds to drive the trucks and deliver the mail which I was happy to do, particularly during Christmastime.

So it is a very special privilege for me to introduce this distinguished gentleman and I hope that you find the Postal Service in good hands that we left it in 60 years ago. [Laughter.]

We might go back and check it out.

You have outlined his background, but clearly his extraordinary accomplishments eminently qualify him to take on the managerial positions and the Board's functions for the Postal Service as the Postal Service has been under a lot of tough challenges here recently, particularly in what I think is a good, healthy, competitive world.

So I will not review all of his accomplishments because the record is now containing the Chairman's observations.

His lovely wife is here. I wonder if you might take a moment to introduce your wife.

Mr. GIULIANO. Certainly. I would like to introduce my wife, Barbara, who I am very pleased could join us this morning.

Senator WARNER. Thank you. Madam Chairman, I will put the balance of my remarks in the record.

Chairman COLLINS. Without objection. And thank you for being here. Senator Warner, I know you have a number of other commitments, so we will excuse you to be on your way. Thank you.

Senator WARNER. Good luck to you.

Mr. GIULIANO. Thank you.

[The prepared statement of Senator Warner follows:]

PREPARED STATEMENT OF SENATOR WARNER

Madam Chairman Collins, Senator Lieberman, and my other distinguished colleagues on the Senate Homeland Security and Governmental Affairs Committee. I thank you for holding this confirmation hearing.

Today, I am pleased to introduce to you Louis Giuliano of Virginia, who has been nominated to serve on the Board of Governors of the U.S. Postal Service. This Board is responsible for directing the overall operation and developing a long-range plan to ensure the viability of the U.S. Postal Service, an institution that dates back to 1775.

Mr. Giuliano's background makes him highly qualified for this position. He received his Bachelor of Science in chemistry and Masters of Business Administration (MBA) from Syracuse University.

Subsequent to earning his MBA, Mr. Giuliano joined Allied Signal, where he ultimately served as president of the company's Avionics Systems Group and was responsible for overseeing seven principal operating units across the nation.

Following his 19-year career at Allied-Signal, Mr. Giuliano joined ITT Industries, a Fortune 500 global engineering and manufacturing company. While at ITT Industries, Mr. Giuliano served in a number of key leadership positions including chairman, president, chief operating officer, senior vice president, and vice president.

Mr. Giuliano played an instrumental role in growing the company's revenues and performance, leading to significantly stronger margins and higher cash flow. He led ITT through strategies designed to streamline processes and increase competitiveness throughout the company.

Madam Chairman, Louis Giuliano is obviously a very accomplished businessman. His extensive experience and accomplishments of increasing performance in such a competitive industry make him well qualified to serve as a Governor of the U.S. Postal Service. I support his nomination, and look forward to the Committee reporting out his nomination favorably.

Chairman COLLINS. We are also very pleased to be joined today by another of our colleagues, Senator John Cornyn of Texas. Welcome.

**STATEMENT OF THE HON. JOHN CORNYN, A U.S. SENATOR
FROM THE STATE OF TEXAS**

Senator CORNYN. Thank you very much, Chairman Collins. It is nice to be here before the Committee, especially to introduce another Texan, Carolyn Gallagher, the President's nominee to serve on the U.S. Postal Service Board of Governors.

I believe you always find this Austin, Texan well-qualified or you will find this Austin, Texan well-qualified for the position and deserving of the Committee's unanimous support.

I assured her that the fact that the seats were not filled on the Committee was actually a good thing and that hopefully her nomination as the other nominations represented here today will go through smoothly and without any unexpected speed bumps.

As this Committee well knows, the U.S. Postal Service must modernize its operations and adapt its business model and practices to conform to a new environment.

We live in a world of instantaneous communications, cell phones, the Internet, e-mail, blogs, faxes, and the rest. And that does not make the U.S. Postal Service irrelevant. It just means that the status quo cannot continue and it must modernize.

Clearly Ms. Gallagher understands this and has the skills and qualifications critical to helping the U.S. Postal Service do just exactly that.

You were generous in your introduction, but let me just sort of expand a little bit on what you said, Madam Chairman.

Her education and private sector background speaks for itself, an undergraduate degree from Duke University and a Master's in Business Administration from the Harvard Business School.

She knows what it takes to succeed in a competitive environment. She served as the President and CEO of Texwood Furniture which posted annual profits for 12 years under her leadership.

And she has been deeply involved in the community of Austin, Texas for many years serving on numerous nonprofit boards.

She has direct experience in the issues confronting the U.S. Postal Service today making her even more qualified. These include, as you noted, a 2003 appointment by President Bush to serve on the Commission on the U.S. Postal Service and then, of course, her November 2004 recess appointment which further demonstrates Presi-

dent Bush's commitment to ensuring that good people serve on the U.S. Postal Service Board of Governors.

In closing, let me just stay that Carolyn Gallagher is a nominee uniquely qualified to meet the 21st Century challenges of the U.S. Postal Service. I support her nomination and I encourage the Committee to do so as well and to unanimously report her nomination to the floor so she can be quickly confirmed.

Thank you very much.

[The prepared statement of Senator Cornyn follows:]

PREPARED STATEMENT OF SENATOR CORNYN

Chairman Collins and Ranking Member Lieberman, I appreciate the Committee allowing me to come before it and introduce Carolyn Gallagher, the President's nominee to serve on the United States Postal Service Board of Governors.

I believe you will find this Austin, Texan well qualified for the position and deserving of the Committee's unanimous support.

As this Committee knows the U.S. Postal Service must modernize its operations and adapt its business model and practices to conform to the 21st Century.

We live in a world of instantaneous communication: Cell phones, the Internet, e-mail, blogs, faxes and the rest. This doesn't make the U.S. Postal Service irrelevant, just that the status quo can't continue.

Clearly Ms. Gallagher understands this and has the skills and qualifications critical to helping the U.S. Postal Service modernize.

Briefly, let me touch on those:

Her education and private sector background speaks for itself:

- an undergraduate degree from Duke University and a Masters in Business Administration from the Harvard Business School
- She knows what it takes to succeed in a competitive environment—she served as the President and CEO of Texwood Furniture which posted annual profits for 12 years under her leadership
- and she has been deeply involved in the Austin, Texas community over the years, serving on numerous non-profit boards.

Moreover, she has direct experience in the issues confronting the U.S. Postal Service today, making her uniquely qualified. These include:

In 2003 President Bush appointed her to serve on the President's Commission on the United States Postal Service.

This Commission was charged with exploring ways to modernize the U.S. Postal Service, which it did when it submitted its report in July of 2003. This report has proven a critical road map to reforming the U.S. Postal Service.

In addition, Ms. Gallagher has been serving as a Postal Service Governor as a result of a November 2004 recess appointment, demonstrating President Bush's commitment to ensuring good people continue to serve on the U.S. Postal Service Board of Governors.

In closing, just let me say that Carolyn Gallagher is a nominee uniquely qualified to meet the 21st Century challenges the U.S. Postal Service faces.

I support her nomination and I encourage the Committee to do so as well and to unanimously report her nomination.

Chairman COLLINS. Thank you very much, Senator. Your endorsement carries great weight with this Committee and you are right to assure the witness that the absence of senators is actually a good sign, not a bad one.

So thank you. I know your schedule also is very crowded today, so you are welcome to depart if you would like.

Senator CORNYN. Thank you, Madam Chairman. I neglected to extend the same courtesy to Ms. Gallagher that Senator Warner did to Mr. Giuliano and that is I would like for her to introduce her husband who I know is with her here today supporting her nomination.

Ms. GALLAGHER. Yes. I am pleased to introduce my husband, Tom, who is with me today. Thank you.

Chairman COLLINS. Thank you. We welcome all the family members who are here today.

Mr. Hammond, it is my understanding that Senator Bond is on the way and I do not want you to feel left out. We will have your introduction as soon as he arrives.

If you have any family members that you would like to introduce, I would invite you to do so at this time.

Mr. HAMMOND. No one.

Chairman COLLINS. OK. Thank you.

All three of the nominees have filed responses to a biographical and financial questionnaire, answered pre-hearing questions submitted by the Committee, and had their financial statements reviewed by the Office of Government Ethics.

Without objection, this information will be made part of the hearing record with the exception of the financial data which are on file and available for public inspection in the Committee offices.

Our Committee rules do require that all witnesses at nomination hearings give their testimony under oath. So I would ask that you all stand and raise your right hand.

Do you swear that the testimony you are about to give to the Committee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Ms. GALLAGHER. I do.

Mr. GIULIANO. I do.

Mr. HAMMOND. I do.

Chairman COLLINS. Ms. Gallagher, I am going to ask you to lead off and proceed with any opening comments that you might have at this time.

**TESTIMONY OF CAROLYN LEWIS GALLAGHER,¹ NOMINEE TO
BE GOVERNOR, U.S. POSTAL SERVICE**

Ms. GALLAGHER. Thank you, Madam Chairman.

First, I would like to thank Senator Cornyn for his gracious introduction. It is both a great honor and a humbling experience to appear before you today.

I would like to thank President Bush for having the confidence in me to appoint me to the Board of Governors and I would like to thank you and the distinguished Members of your Committee for considering my nomination.

Thank you.

Chairman COLLINS. Thank you. Mr. Giuliano.

¹The biographical and financial information of Ms. Gallagher appears in the Appendix on page 17.

Pre-hearing questions and responses for the Record for Ms. Gallagher appears in the Appendix on page 31.

Post-hearing questions and responses for Ms. Gallagher appears in the Appendix on page 42.

**TESTIMONY OF LOUIS J. GIULIANO,¹ NOMINEE TO BE
GOVERNOR, U.S. POSTAL SERVICE**

Mr. GIULIANO. Good morning, Chairman.

Chairman COLLINS. Good morning.

Mr. GIULIANO. It is my pleasure to be here this morning. I am honored to have been nominated and to be considered by your Committee. It certainly is a new departure for me in my activities.

I would like to say that one of the major surprises to me as I evaluated whether or not to even be considered for this position was getting to know the management of the Postal Service.

Through that process, I became convinced that there was a team of people there that had energy and a commitment to change and a capability that would be very important for the future.

I decided that I would like to do anything I could to help that team take on the challenges for the future and to continue that progress, a significant record of accomplishment that they have achieved over the last several years and continue to improve that going forward.

So I am very glad to be here today and thank you for your consideration.

Chairman COLLINS. Thank you. Mr. Hammond.

**TESTIMONY OF TONY HAMMOND,² NOMINEE TO BE
COMMISSIONER, POSTAL RATE COMMISSION**

Mr. HAMMOND. Thank you, Chairman Collins, for inviting me to be here today and I especially appreciate the serious consideration that you have given to postal issues during the time that I have served on the Postal Rate Commission.

And I would in advance like to thank Senator Bond when he arrives for being willing to introduce me again to this Committee.

And I would also like to congratulate Governors Gallagher and Giuliano on their appointments. I know that they are joining a committed team at the U.S. Postal Service.

And if I could take one moment, my fellow commissioner, Ruth Goldway, has been able to join us and I am pleased to have her here today also.

Since the time I was originally before this Committee almost 3 years ago up until the past month, the Postal Rate Commission did not have an omnibus postal rate case before us. And that stability in postal rates for over 3 years has been very beneficial to the American public.

I know it was largely the result of congressional action and it has made a big difference in the mailing industry in this country.

However, during the time I have been on the Commission and serving as vice chairman, we have had a number of issues dealing

¹The biographical and financial information of Mr. Giuliano appears in the Appendix on page 48.

Pre-hearing questions and responses for the Record for Mr. Giuliano appears in the Appendix on page 57.

Post-hearing questions and responses for Mr. Giuliano appears in the Appendix on page 67.

²The biographical and financial information of Mr. Hammond appears in the Appendix on page 71.

Pre-hearing questions and responses for the Record for Mr. Hammond appears in the Appendix on page 78.

Post-hearing questions and responses for Mr. Hammond appears in the Appendix on page 89.

with postal rates and efficiencies and been active in them. And if I could mention just briefly a few of them.

We have adopted initiatives designed to improve flexibility in the ratemaking process through negotiated service agreements between the Postal Service and mailers.

We have adopted rules of practice that now require the Postal Service to provide road-map testimony in omnibus rate case filings. This is so that rate payers can more quickly identify changes that would affect them.

We have attempted to increase the Postal Service's financial transparency by adopting rules that direct the Postal Service to provide relevant financial and operating reports. Our goal has been to reduce the need for legal discovery and to shorten the rate hearing process.

We have also recommended approval of a number of experimental products which allow the Postal Service to increase services in its core mission which is, of course, delivery of the mail.

These are just some of the activities that the Commission has been active in since the Senate confirmed me to the unexpired term in 2002 and I am grateful for that opportunity to serve.

If confirmed for a full term at the Postal Rate Commission, I will continue to handle all the cases and issues that come before us in a fair and responsible manner.

And, again, thank you for giving me this opportunity today. I will be happy to answer any questions that you might have.

[The prepared statement of Mr. Hammond follows:]

PREPARED STATEMENT OF TONY HAMMOND

Thank you, Madam Chairman and Members of the Committee, for inviting me to appear this morning. I especially appreciate the serious consideration that you have given to postal issues during the time I have served on the Postal Rate Commission.

I would like to thank Senator Bond for taking time to be here today to introduce me again to this Committee. As a native Missourian, I know we feel honored that he has devoted almost 30 years to public service on our behalf.

I also want to congratulate Governor's Gallagher and Giuliano on their appointments. I know they are joining a committed team at the U.S. Postal Service.

Since the time I was originally before this Committee almost three years ago, until this past month, the Postal Rate Commission did not have an Omnibus Postal Rate case come before us.

The stability in postage rates for over three years has been very beneficial to the American public. I know it was largely the result of congressional action and has made a major difference in the mailing industry in this country.

However, during the time I have served as Commissioner and Vice Chairman, we have been active on a number of issues dealing with postal rates and efficiencies.

The Postal Rate Commission has adopted initiatives designed to improve flexibility in the rate-making process through Negotiated Service Agreements (NSA's) between the Postal Service and mailers.

We have adopted rules of practice requiring the Postal Service provide "roadmap" testimony in Omnibus Rate Case filings so ratepayers can more quickly identify changes that affect them.

We have attempted to increase the Postal Services' financial transparency by adopting rules directing the Postal Service to provide relevant financial and operating reports, in order to reduce the need for discovery and to shorten rate hearings.

The Postal Rate Commission has also recommended approval of a number of experimental products which allow the Postal Service to increase services in its core mission, which is the delivery of the mail.

These are just some of the activities that the Commission has been active in since the Senate confirmed me to the unexpired term in 2002. I am grateful for that opportunity to serve.

If confirmed for a full term at the Postal Rate Commission, I will continue to handle all cases and issues before us in a fair and responsible manner and, again,

thank you for giving me this opportunity today. I would be pleased to answer any questions you might have.

Chairman COLLINS. Thank you very much for your service and your testimony.

Ms. Gallagher, you are in the unique position of having served on the President's Commission of the Postal Service as well as serving as the Governor of the Postal Service Board since last November.

Now that you have seen the Postal Service up close as a governor, have you changed your mind on any of the recommendations made by the Commission?

Ms. GALLAGHER. Not that I can think of, Senator. I have been impressed with the management, even more so than we were on the Commission. They are doing a terrific job. And I think for the most part our recommendations, I will still support.

Chairman COLLINS. That is very helpful to know. I was very impressed with the work done by the Presidential Commission, but obviously seeing the Postal Service more from the inside perspective might cause you to alter your judgment. It is good to know that you think those recommendations are still valid and should be pursued.

Ms. Gallagher, in response to the prehearing questionnaire on the use of the Postal Service's \$32 billion pension liability and its annual pension related payments, you stated that the use of the savings should be balanced between mitigating rate increases and pre-funding retiree health benefits.

The Postal Bill that Senator Carper and I have introduced would return roughly 25 percent of these savings to the Postal Service to mitigate future rate increases and the remaining 75 percent would be used to pre-fund retiree health benefits.

Ms. GALLAGHER. I do agree with it, Senator. I think both are critical to the long-term health of the Postal Service. It is hard to be sure of what the right thing is. But I think it is a good balance and addresses both.

Chairman COLLINS. Mr. Giuliano, do you support that general approach?

Mr. GIULIANO. Well, I think it is consistent with my statement and it is hard for me to in my perspective argue with specific percentages or ratios. But I think generally it is consistent with what I think would be the right thing to do.

I think you also have to put it in context of the total bill and whatever other restraints and limitations are in the bill, what happens with military liabilities and be mindful of the total issue.

Chairman COLLINS. Ms. Gallagher, the Treasury Department has suggested that none of the money should be used to mitigate rate increases and instead should be used entirely for pre-funding retiree health benefits and other obligations.

Could you give the Committee a sense of what kind of impact that would have on future rate increases if none of the money could be used to mitigate rate increases?

Ms. GALLAGHER. Clearly we are in a situation where our costs are going up. I do not think that will change in the future. I think if it was all used toward the retirement unfunded liability that we would clearly have to raise rates under the cap more often than we

would otherwise and certainly more, although obviously limited by the cap in your bill. So I do think there would be more and bigger rate requests.

Chairman COLLINS. Mr. Giuliano, would you like to comment on that also?

Mr. GIULIANO. Yes. Clearly it would have a negative impact, if you will, on the rate structure and require larger rate increases than we anticipate now. I think it is important to recognize that the Postal Service has an opportunity to grow this business, to actually provide greater service and greater performance to the American taxpayer with the introduction of additional capabilities, but better service.

Even though their track record is much better than it has been in the past, there are still ways to improve. And what you want to be able to do is make this a more attractive service, one that actually helps American enterprise in a more positive way going forward.

I also think that you have to remember how this money was generated to begin with. This was already money supplied by the rate payers and it would be kind of a double bill not to be able to get any of that benefit.

Chairman COLLINS. I think that is an excellent point.

Mr. Giuliano, you raise the question of growing the Postal Service's business and one reason that I am very excited about both yours and Ms. Gallagher's involvement is you have so much private sector experience in doing just that. I think it is going to be very helpful and already has been very helpful to the Postal Service to have the benefit of your experience.

One real challenge for the Postal Service is declining First Class Mail volumes. As you know, this raises questions about the long-term future for the Postal Service since First Class Mail revenues cover more than two-thirds of the Postal Service's institutional costs, many of which are related to maintaining the delivery and retail networks that are fundamental to universal service, there is a lot of concern about what can be done to reverse the decline in First Class Mail.

Mr. Giuliano and Ms. Gallagher, could you give us any insights on how you think the Postal Service could begin to reverse this troubling trend and what steps have been taken so far in this regard.

Mr. GIULIANO. Well, I think the Postal Service and the management team has already demonstrated the beginnings of that. And, actually, I think we had about a 3- or 4-month period here where First Class Mail actually went up. Now, that may have been a confluence of positive factors that may not be repeating all the time.

Chairman COLLINS. An election year, I think, was a major factor.

Mr. GIULIANO. The election helped, but it was compounded by the financial services businesses and some of these negotiated agreements. These have changed people's perspective as to how big a role First Class Mail played in their advertising and their promotional activities.

I think that is a key indicator. I think improving services, adding things like the automated postal machines, Click 'n Ship, extending hours. I know we are talking about extending the hours that the

post offices are open. Relatively simple things that make it more convenient and easier to do business.

We are thinking about this from the customer's perspective. What do they need to do their job. What do they need to grow their businesses and how can the mail process help that. I think if we continue to look at things like that, improved could be significant mitigation of volume decline.

Most businesses face issues like this in one form or another. It may not be the same drivers, but most businesses are faced with issues where either different technology or different competitors come in and create this type of problem. There has to be creative thinking as how to overcome it.

That is why I think that it is so important that in the Postal Reform Bill, we review the impact the total legislative package has on the ability of the Postal Service to have some flexibility in how it addresses customer needs.

Chairman COLLINS. Ms. Gallagher.

Ms. GALLAGHER. I agree with Governor Giuliano. I think clearly there is opportunity to find more ways to make the products and services at the Postal Services useful to its customer. I do think that has been a strong initiative of the Postal Service. He mentions Click 'n Ship and the automated postal centers which I think both have made a big difference in the use of the postal services.

We are also working on intelligent mail which I think will be a tremendous new service that can bring in volume and enhance the way people use the Postal Service.

I do think the Postal Service should be limited to its core business of delivering the mail, but it has the obligation to continually look for better ways to do that.

Chairman COLLINS. Thank you.

The Collins-Carper Postal Reform Bill is designed to foster more efficient postal operations by giving the Postal Service much more flexibility than it has now to set its own rates and implement revised operating procedures.

The bill includes, however, a strict rate cap that is intended to ensure that rates will not rise faster than inflation.

A key assumption is that the level of services provided by the Postal Service will remain sufficient to meet the personal and business needs of this Nation.

A major concern that mailers have brought to my attention is that if the Postal Service projects that its costs are likely to rise faster than inflation during some period, it might decide to cut services instead of implementing more efficient operating practices.

We tried to avoid that in our bill by requiring the Postal Service, in consultation with the Postal Rate Commission, to develop and define standards of service. I assume that you all support the overall goal of developing service standards and providing performance data against which those standards can be measured.

But do you agree with the suggestion that these standards, performance goals, and other measures should be included on the Postal Service's Web site so that the public would have easy access?

One of my concerns is to make the Postal Service more transparent to its customers. Having more information available is one way to do that.

Ms. GALLAGHER. Senator, I certainly agree that more transparency is better and I think the Postal Service is moving in that direction voluntarily as well.

And I do agree with setting performance standards and making the performance on those standards public. In terms of what specific standards those should be. I do not know at this time, but I do agree with the overall goal.

Chairman COLLINS. Mr. Giuliano.

Mr. GIULIANO. First of all, I think the Postal Service is very transparent compared to most businesses. I mean, they even publish their financial statements monthly. There is no business that I know that does that. So I think that there is a fair amount of transparency already.

I would like to come at this from the customer's perspective. Certainly a customer ought to know what it is contracting for in terms of service performance. The idea of setting strict service standards and having them published is fine.

But in my view, if you are really going to satisfy customers, it may actually restrict the opportunities that a customer might have to modify service in a way that is more important to them. There may be large mailers or certain classes of customers that want a different type of performance. And that would be very meaningful to their business.

And so I am concerned about just restricting service to a specific set that is difficult to change and certainly may be legislated or monitored by a regulatory agency.

I think that the best opportunity for the postal customers is to be able to work out service standards within the cost and the bounds, the other bounds of that total package that might be best for them.

Chairman COLLINS. I would now like to recognize the distinguished Senator from Missouri who has joined us. We thank you very much for being here today, Senator Bond. I understand you are going to introduce Mr. Hammond.

**STATEMENT OF THE HON. CHRISTOPHER S. BOND, A U.S.
SENATOR FROM THE STATE OF MISSOURI**

Senator BOND. Thank you very much, Madam Chairman. I may be known as the late Senator from Missouri, but we were trying to work out the schedule, a number of commitments I had today. And I apologize for being late.

But I did want to take an opportunity to tell you a little bit about a fellow Missourian and a good friend, Commissioner Hammond, a graduate of Southwest Missouri State University, soon to be known as Missouri State University.

He is an owner of the family farm in Hickory County, Missouri. He served on Capitol Hill from 1979 to 1989 on the official staff of Congressman Gene Taylor. And anybody who does not remember Gene Taylor, I have many stories to tell about the way he assisted me when I arrived here as a rookie in 1987.

Working on Congressman Taylor's staff, Tony dealt with many things in serving the congressman on the Post Office and Civil Service Committee. He had many legislative experiences with Postal Service rates and operations.

He has been Executive Director as well as Finance Director of the Missouri Republican party. He was Director in 1998 of the campaign operations at the Republican National Committee and previously served as a field representative.

Before being named to the Postal Rate Commission, Commissioner Hammond was owner and managing member of Hammond Company, a private consulting firm, and he served as senior vice president of a direct marketing firm and a senior consultant to Forbes 2000, Inc.

For the past several years, Commissioner Hammond has worked hard to assure that postal rates are set openly and that they are fair. He has been responsible for making sure that an adequate level of affordable mail service is available throughout the country as the cost of mail service has generally tracked the rate of inflation.

It is my prediction that he will continue to provide the highest level of care and service that this country needs as he continues another term with the Postal Rate Commission. It is with great pride that I support his nomination. I trust the Committee will as well. And if you need any help on the floor, I will be more than happy to provide it.

But, Madam Chairman, thank you for the hearing and I thank you for giving me the opportunity to say just a few words about a good friend for whom I have the highest respect.

[The prepared statement of Senator Bond follows:]

PREPARED STATEMENT OF SENATOR BOND

Thank you, Madam Chairman, for allowing me to join you today to introduce a fellow Missourian, Mr. Tony Hammond, who has been serving as Commissioner of the United States Postal Rate Commission since the Fall of 2002.

Commissioner Hammond is a graduate of Southwest Missouri State University in Springfield and remains an owner of the Hammond family farm in his native Hickory County Missouri.

He served on Capitol Hill from 1979 to 1989 on the official staff of Missouri Congressman Gene Taylor as Legislative Director. During Taylor's tenure as Ranking Member of the Post Office and Civil Service Committee, Hammond dealt with the diverse issues and interests concerning U.S. Postal Service rates and operations.

From 1989 to 1994, Mr. Hammond was Executive Director, as well as Finance Director, of the Missouri Republican Party.

During the 1998 election cycle, Hammond was Director of Campaign Operations at the Republican National Committee where he was responsible for political programs nationwide. He was previously RNC Regional Field Representative in the Great Lakes Region and the Southern Region where he assisted campaigns and state party organizations in implementing RNC programs.

Before being named to the PRC, Commissioner Hammond was owner and managing member of T. Hammond Company, a private consulting firm based in Arlington, Virginia. He also served as Senior Vice President of the direct marketing firm, Feather, Larson & Synhorst, and Senior Consultant to Forbes 2000, Inc.

For the past several years, Commissioner Hammond has worked hard to assure that postal rates are set openly, and that they are fair. He has been responsible for making sure that an adequate level of affordable mail service is available throughout this country as the cost of mail service has generally tracked the rate of inflation. It is my prediction that he will continue to provide the highest level of care and service that this country needs as he continues another term with the Postal Rate Commission.

It is with great pride that I introduce Mr. Hammond before this Committee today.

Chairman COLLINS. Thank you very much, Senator Bond. Your endorsement means a great deal to this Committee and we appreciate your taking the time out of your busy schedule to be here.

I know that you have other demands on your schedule, so we are happy to excuse you at this time if you would like.

Senator BOND. I appreciate that. Thank you.

Chairman COLLINS. Thank you.

I am now going to turn to some substantive questions for Mr. Hammond. Before I do that, there are three standard questions that I need to ask all of you for the record.

First, is there anything you are aware of in your background which might present a conflict of interest with the duties of the office to which you have been nominated?

Ms. GALLAGHER. No, there is not.

Mr. GIULIANO. No.

Mr. HAMMOND. No.

Chairman COLLINS. Second, do you know of anything personal or otherwise that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Ms. GALLAGHER. No.

Mr. GIULIANO. No.

Mr. HAMMOND. No.

Chairman COLLINS. And, finally, do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted Committee of Congress if you are confirmed?

Ms. GALLAGHER. Yes, I do.

Mr. GIULIANO. Yes.

Mr. HAMMOND. Yes.

Chairman COLLINS. Thank you. It shows you were listening to the questions. Two nos and a yes. That is exactly what we were seeking.

Mr. Hammond, in your answers to written questions, you expressed the importance of the Postal Service providing high-quality, timely data to the Postal Rate Commission.

In the legislation that Senator Carper and I have introduced, we increase the data reporting requirements that the Postal Service would have to provide, including requiring annual cost, revenue, rates, and service reports requiring SEC type reporting and giving the Postal Rate Commission subpoena power.

Do you support these changes?

Mr. HAMMOND. Yes, I totally support those changes. I think that increased financial transparency at the Postal Service is necessary for everyone.

New periodic reporting requirements would also specifically assist us during consideration of rate cases, and in between consideration of rate cases because, as you know, currently, between omnibus rate cases, we get very little updated information.

And since we were fortunate to go for over 3 years without a rate case before us, the data that we had used before was really close to being outdated. So that would be very beneficial to us if indeed we were to have that. And I hope that you will include that in the legislation, yes.

Chairman COLLINS. Are there other changes beyond what are included in our legislation that you feel would help the Postal Rate Commission do its job?

Mr. HAMMOND. I think that from what I have seen in your draft bill that would cover it very well.

Chairman COLLINS. In answers to written questions, you also stated that you believe that a rate cap mechanism could help shorten the rate making process.

The complaints that I hear all the time is that the rate-making process is too lengthy, too expensive, and too litigious. On the other hand, the rate cap must be established to provide the Postal Service with incentives to continue its work to become more efficient.

The legislation that I have introduced establishes the Consumer Price Index, the CPI, as the rate cap on each class and only allows for rate changes for exigency, rate changes in extraordinary circumstances.

First, do you support the rate cap?

Mr. HAMMOND. Yes.

Chairman COLLINS. Do you think the CPI is the correct index?

Mr. HAMMOND. I think that it is a good index to use, yes.

Chairman COLLINS. Is there anything that you would recommend with regard to the rate cap mechanism in the bill?

Mr. HAMMOND. Well, I believe you have taken care of this in the legislation as it gets to markup; we'll see—but making it very difficult for the Postal Service to go beyond this except in exigent circumstances, to go outside the rate cap would—it needs to have strict limits on it.

I think those circumstances should be emergency circumstances such as something as drastic as when the deadly anthrax mailings, for instance, came through rather than just the Postal Service finding that it is not raising enough revenue.

You have to force efficiencies on any government monopoly and I appreciate the management of the Postal Service recently doing a very good job. But still it remains a government monopoly and I think you have to have the safeguards that you have put in place in that legislation to make sure it stays that way.

Chairman COLLINS. Our legislation allows the Postal Service to change rates for market dominant products, but requires a prior review by the Postal Regulatory Commission. The Postal Service has expressed a desire for an after-the-fact review.

In your opinion which approach best meets the needs of both the Postal Service, its customers, the competitors, the general public? We obviously have a lot of different interests to balance.

Mr. HAMMOND. Right. Well, certainly the U.S. Postal Service if it is to survive well into the 21st Century is going to have to have more rate flexibility.

But on the other hand, especially if you are going to go into market dominant products, it remains a government monopoly and you have to have somewhere such as a postal regulatory commission so that rate payers, the stakeholders, have a place to go rather than the Postal Service having ultimate flexibility of just charging whatever they want to.

So you do need to have review by, in this instance because it is a monopoly, a regulatory agency to protect the interest of the public. That is what it is there for.

Chairman COLLINS. Thank you.

I would like to thank all of the nominees for appearing today and for your willingness to serve the public.

I believe the Postal Service is so important to this country and making sure that we have the very best people involved on the Board of Governors, and the Postal Rate Commission is truly vital.

We need to make sure we are strengthening the Postal Service for the 21st Century and make sure that this institution, which has endured for over 200 years, continues to serve us for another 200 years.

I want to thank you all for your commitment, for your willingness to serve what I think is a very important cause.

Without objection, the hearing record will be kept open until 5 p.m. today for the submission of any additional questions or statements for the record.

Again, my thanks to all of you, and this hearing is now adjourned.

[Whereupon, at 11 a.m., the Committee was adjourned.]

A P P E N D I X

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES CAROLYN LEWIS GALLAGHER

A. BIOGRAPHICAL INFORMATION

1. **Name: (Include any former names used.)**
My name is Carolyn Lewis Gallagher. My maiden name was Carolyn Anne Lewis. In a previous marriage I had the name Carolyn Lewis Mohler.
2. **Position to which nominated:**
I have been appointed in a recess appointment to the Board of Governors of the U.S. Postal Service.
3. **Date of nomination:**
The date of my recess appointment was November 3, 2004.
4. **Address: (List current place of residence and office addresses.)**
5. **Date and place of birth:**
I was born on October 25, 1954, in Austin, Texas.
6. **Marital status: (Include maiden name of wife or husband's name.)**
I am married to Thomas Edward Gallagher.
7. **Names and ages of children:**
8. **Education: List secondary and higher education institutions, dates attended, degree received and date degree granted.**
The degrees I have received are as follows:
Master of Business Administration, Harvard Graduate School of Business, 1982
Bachelor of Arts, Duke University, 1976
High School Diploma, Stephen F. Austin High School in Austin, TX, 1973
9. **Employment record: List all jobs held since college, including title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment if necessary.)**
My employment record is attached.

Biographical and Financial Information
Carolyn Lewis Gallagher
-2-

10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with federal, state, or local governments, other than those listed above.
My government experience is attached.
11. **Business relationships:** List all positions currently or formerly held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.
My business relationships are attached.
12. **Memberships:** List all memberships and offices currently or formerly held in professional, business, fraternal, scholarly, civic, public, charitable, and other organizations.
My memberships are attached.
13. **Political affiliations and activities:**
 - (a) List all offices with a political party which you have held or any public office for which you have been a candidate.
I have never held or been a candidate for political office.
 - (b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.
I have never been a member or held an office in a political party.
 - (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.
Political contributions made jointly with my husband are attached.
14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and other special recognitions for outstanding service or achievements.
In 1995 I received the Entrepreneur of the Year Award in Austin by Ernst & Young/Inc. Magazine.
15. **Published writings:** List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written.
I have no published writings.

Biographical and Financial Information
Carolyn Lewis Gallagher
-3-

16. **Speeches:** Provide the Committee with four copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated.

I have made no formal speeches.

17. **Selection:**

- (a) Do you know why you were chosen for this nomination by the President?

I believe I was chosen for this appointment by the President for several reasons. First, I have knowledge of the issues facing the U.S. Postal Service as a result of serving on the President's Commission for the United States Postal Service in 2002-2003. In addition I have twenty five years of experience in business, including owning and managing a manufacturing company for twelve years. Finally I also have experience with large public pension and health benefit plans having served for eight years on the Board of the Employees Retirement System of Texas, which is responsible for the \$20 billion retirement plan and all health benefits for the employees and retirees of the State of Texas.

- (b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

There are several things in my background and experience which qualify me to be Governor. Certainly serving on the President's Commission on the Postal Service allowed me the unique opportunity to not only study the significant issues facing the Postal Service, with declining first class mail volume and increasing costs, but also to work with the other Commissioners to recommend ways to address those issues and keep the Postal Service successful in its mission for many years. That experience enables me to contribute more quickly and with a better understanding of the issues than if I had not been on the Commission.

The Postal Service has a unique mandate as a public institution to run like a business. My education and business experience in both large and small corporations has given me a

Biographical and Financial Information
Carolyn Lewis Gallagher

-4-

thorough understanding of how businesses work and what makes them successful. I have owned and run a manufacturing business dealing with labor and production issues, albeit on a much smaller scale than the Postal Service.

Finally I have many years of public service at the state level which I believe will be valuable to this position, especially my eight years of experience overseeing public pension and health benefit plans as Trustee of the Employees Retirement System of Texas. In addition I was one of three Conservators who took over operations of the Texas Commission on Alcohol and Drug Abuse in 1995 when it was charged with gross fiscal mismanagement, giving me experience in turning around a troubled public agency and putting in place sound fiscal controls.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?
I do not plan to sever connections with my present business associations or organizations as none of them conflict with my service on the Postal Board of Governors to the best of my knowledge. I will sever connections with any organization that is deemed to be a conflict of interest.
2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.
I do not have any plans, commitments or agreements to pursue outside employment with or without compensation, during my service with the government.

Biographical and Financial Information
Carolyn Lewis Gallagher
-5-

3. Do you have any plans, commitments or agreements after completing government service to resume employment affiliation or practice with your previous employer, business firm, association or organization?
I have no plans to change my business connections or other associations after I complete my government service.
4. Has anybody made a commitment to employ your services in any capacity after you leave government service?
No one has made any commitment to employ my services in any capacity after I leave government service.
5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?
I do expect to serve out my full term as a Governor.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.
To my knowledge there is no business relationship, dealing or financial transaction which I have had during the last 10 years which would in any way constitute or result in a possible conflict of interest as a Governor.
2. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of the law or public policy other than while in a federal government capacity.
At the federal level, I have not been involved in any activity in the past 10 years to influence any legislation, execution of law or public policy other than my service on the President's Commission on the United States Postal Service. At the state level, I have not been involved in any activity in the past 10 years to influence any legislation, execution of law or public policy other than my service as Trustee of the Employees Retirement System of Texas.

Biographical and Financial Information
Carolyn Lewis Gallagher
-6-

3. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of the Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?
- I do agree to have written opinions provided to the Committee by the designated agency ethics officer of the United States Postal Service and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to my serving in this position.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.
- I have never been disciplined or cited for a breach of ethics for unprofessional conduct or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee or other professional group.
2. To your knowledge, have you ever been investigated, arrested, charged or convicted (including pleas of guilty or nolo contendere) by any federal, State, or other law enforcement authority for violation of any federal, State, county or municipal law, other than a minor traffic offense? If so, provide details.
- To my knowledge I have never been investigated, arrested, charged or convicted by any federal, state or other law enforcement authority for violation of any law other than a minor traffic offense.
3. Have you or any business of which you are or were an officer, director or owner ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.
- No business of which I have been an officer, director or owner has ever been involved as a party in interest in any administrative agency proceeding or civil litigation.
4. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.
- I know of no other information that should be considered in connection with my nomination.

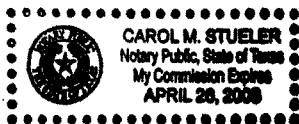
E. FINANCIAL DATA

All information requested under this heading must be provided for yourself, your spouse, and your dependents. (This information will not be published in the record of the hearing on your nomination, but it will be retained in the Committee's files and will be available for public inspection.)

AFFIDAVIT

Carolyn Lewis Gallagher being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Subscribed and sworn before me this 19th day of January, 2005



Carol M. Stueler
Notary Public

Biographical and Financial Information
Carolyn Lewis Gallagher
-9-

EMPLOYMENT RECORD

2000 -	Investor
1988 - 2000	President & CEO, Texwood Furniture Corporation in Austin, Texas
1986 - 1988	President & CEO, Peachtree Land Company in Atlanta, Georgia
1985 - 1986	Manager, Business Development, The Coca-Cola Company in Atlanta, Georgia
1984 - 1985	President of Houston Trailer, a division of Distribution Systems, Inc. in Houston, Texas
1982 - 1984	Vice President of Strategic Development, Distribution Systems, Inc. in Houston, Texas
1980 - 1982	<i>(Attended Harvard Business School)</i>
1979 - 1980	Data Systems Specialist, Southern Bell Telephone Company in Atlanta, Georgia
1976 - 1979	Account Executive, Southern Bell Telephone Company in Augusta, Georgia

GOVERNMENT EXPERIENCE

2002 - 2003	President's Commission on the United States Postal Service
1996 -	Trustee and Past Chair of the Employees Retirement System of Texas
1995 - 1996	Member of the Texas State Conservatorship Board

BUSINESS RELATIONSHIPS

Positions Currently Held

Trustee and Past Chair of St. Edwards University

Advisory Board of Texas Capital Bank of Austin

Investment Advisory Committee of St. Andrew's Episcopal School

Positions Previously Held

Board Chair, President & CEO of Texwood Furniture Corporation

Limited Partner and member of the Advisory Council of Quickturn P.S.M., LTD

Trustee of St. Andrew's Episcopal School

General Partner and President of Peachtree Land Company

Director of the Austin Chamber of Commerce

MEMBERSHIPS

Positions Currently Held

President – Elect of the Headliner's Club of Austin

Member of the Young President's Organization

Member of the President's Council of the Paramount Theatre

Member of Leadership Austin

Positions Formerly Held

Trustee of Safeplace Domestic Violence Survival Center

Trustee and Past President of the Paramount Theatre

Trustee and Founding President of Austin Musical Theatre

Trustee of Laguna Gloria Art Museum

Member and Former President of the Austin Area Research Organization

Trustee of the Children's Hospital Foundation of Austin

Trustee of the Seton Hospital Fund

POLITICAL CONTRIBUTIONS 2000 – 2004

Bush and Cheney Reelection Committee	\$4000
Citizens For Healthcare Financing District	\$250
Patrick Rose For State Representative Campaign	\$100
Will Wynn For Mayor Campaign	\$100
Friends of Ben Bentsen for State Representative Campaign	\$250
Citizens Supporting Austin Community College	\$350
Jude Biscoe Election Campaign	\$100
HOSPAC	\$100
Todd Baxter for State Representative Campaign	\$100
Ann Kitchen for State Representative Campaign	\$100
Jude Julie Kocurek Campaign	\$100
Rafael Quintanilla for Austin Community College Board Campaign	\$100



United States
Office of Government Ethics
1201 New York Avenue, NW., Suite 500
Washington, DC 20005-3917

November 4, 2004

The Honorable Susan M. Collins
Chair
Committee on Governmental Affairs
United States Senate
Washington, DC 20510-6250

Dear Madam Chair:

Under the Ethics in Government Act of 1978, Presidential nominees requiring Senate confirmation who are not expected to serve in their Government positions for more than 60 days in a calendar year are not required to file public financial disclosure reports. The Act, as amended, however, contains a provision in section 101(b) which allows the committee with jurisdiction to request any financial information it deems appropriate from the nominee.

We understand that your committee desires to receive a financial disclosure report (SF 278) from any Presidential nominee for a position on the Board of Governors of the United States Postal Service, along with a written opinion from this Office regarding any possible conflicts of interest.

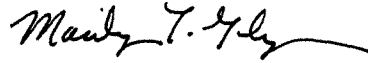
Therefore, I am forwarding a copy of the financial disclosure report of Carolyn L. Gallagher, who has been nominated by President Bush for the position of Governor on the Board of Governors of the United States Postal Service. Because Ms. Gallagher is not expected to serve more than 60 days in any calendar year, the enclosed report and this letter are submitted to you in accordance with your committee's confirmation procedures and will be available for public inspection only to the extent provided by your practices. There is no authority under the Act for public release of this material by the executive branch.

We have reviewed the report and have obtained advice from the United States Postal Service concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is a letter dated October 13, 2004, from Ms. Gallagher to the United States Postal Service's ethics official, outlining the steps which Ms. Gallagher will take to avoid conflicts of interest.

The Honorable Susan M. Collins
Page 2

Based thereon, we believe that Ms. Gallagher is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marilyn L. Glynn", with a long horizontal flourish extending to the right.

Marilyn L. Glynn
Acting Director

Enclosures

**U.S. Senate Committee on Homeland Security and Governmental Affairs
Pre-Hearing Questionnaire for the Nomination
of Carolyn L. Gallagher to be
Governor of the United States Postal Service**

I. Nomination Process and Conflicts of Interest

1. Why do you believe the President nominated you to serve as Governor of the United States Postal Service (USPS)?

I believe I was chosen for this appointment by the President for several reasons. First, I have knowledge of the issues facing the U.S. Postal Service as a result of serving on the President's Commission for the United States Postal Service in 2002-2003. In addition, I have twenty-five years of experience in business, including owning and managing a manufacturing company for twelve years. Finally, I also have experience with large public pension and health benefit plans having served for eight years on the Board of the Employees Retirement System of Texas, which is responsible for the \$20 billion retirement plan and all health benefits for the employees and retirees of the State of Texas.

2. Were any conditions, expressed or implied, attached to your nomination? If so, please explain.

No.

3. What specific background and experience affirmatively qualifies you to be a Governor of the USPS?

There are several things in my background and experience which qualify me to be Governor. Certainly serving on the President's Commission on the Postal Service allowed me the unique opportunity to not only study the significant issues facing the Postal Service, with declining first class mail volume and increasing costs, but also to work with the other Commissioners to recommend ways to address those issues and keep the Postal Service successful in its mission for many years. That experience enables me to contribute more quickly and with a better understanding of the issues than if I had not been on the Commission.

The Postal Service has a unique mandate as a public institution to run like a business. My education and business experience in both large and small corporations has given me a thorough understanding of how businesses work and what makes them successful. I have owned and run a manufacturing business dealing with labor and production issues, albeit on a much smaller scale than the Postal Service.

Finally, I have many years of public service at the state level which I believe will be valuable to this position, especially my eight years of experience overseeing public

pension and health benefit plans as Trustee of the Employees Retirement System of Texas.

4. Have you made any commitments with respect to the policies and principles you will attempt to implement as Governor? If so, what are they and to whom have the commitments been made?

No.

5. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures you will use to carry out such a recusal or disqualification.

To my knowledge, there are no issues that would cause me to recuse or disqualify myself. I would work with the Postal Service's General Counsel to appropriately resolve any issues that may arise.

II. Role and Responsibilities of Governor

6. What do you see as the main challenges facing the Postal Service? How should the Board of Governors work with postal management to address these challenges?

The Postal Service faces a declining volume of First-Class Mail, driven largely by electronic diversion, and, at the same time, rising costs due to inflation and a growing delivery network. The Board's role is to work with Postal management to set long-term goals and strategies to address those challenges and to hold management accountable for achieving them.

7. What do you think should be the Board of Governors' top priorities?

The Board's priorities should focus on the Postal Service's goal and strategies to address the challenges discussed above and ensuring there are processes for evaluating management's implementation of these strategies.

8. The Governors are chosen to represent the public interest generally. How do you plan to interact with various stakeholders interested in postal issues and how do you think as a Governor you can effectively represent their interests?

While serving on the President's Commission, I heard the views of a wide variety of stakeholders. I continue to be interested to hear their views and would be available to meet, whenever appropriate, with any interested stakeholder.

9. How do you view the role of a Governor of the Postal Service? What would you highlight from your experience that will enhance your effectiveness in this role?

I believe the role of a Governor is similar to the role of a member of a corporate board. We should provide guidance and oversight for Postal management. I think my service on other boards has given me an understanding of the appropriate and necessary inter-action of a Board and management.

III. Policy Questions

Postal Financial and Transformation Issues

10. Recent data shows that the Postal Service is facing declining mail volumes and revenues in some of its key revenue-producing areas, especially First-Class Mail, due to competition and electronic diversion. What approach should the Postal Service take to maintain its viability and competitiveness?

First and foremost, the Postal Service must continue to meet its universal service obligation in a timely and reliable fashion. Second, the Postal Service must find new ways to make its products useful for its customers. Third, the Postal Service must operate as efficiently as possible without sacrificing service.

11. A recent OPM analysis may lead to a reduction in the Service's \$32 billion pension liability and its annual pension-related payments. Suggestions have been made that any available funds from these reductions should be used to reduce the Service's \$11 billion outstanding debt, or fund the Service's \$40 billion to \$50 billion obligation for retiree health benefits, or put to other purposes such as improving the efficiency of its infrastructure. How do you think the Service should respond if its pension liability is reduced?

With the passage of the Postal Civil Service Retirement System Reform Act, the Postal Service was able to reduce its debt to \$1.8 billion at the end of FY2004 and hold off on raising rates until 2006. As noted in the Board's letter to Chairman Collins and Senator Lieberman, I believe going forward that a balance should be reached, allowing some of the funds to be used to pre-fund retiree health benefits and some to be used to mitigate additional rate increases.

12. Some concerns have been raised about whether it is appropriate for the Postal Service to offer certain new products and services. What are your views regarding whether it is appropriate for the Postal Service to offer products and services that compete with private sector companies?

I agree with the President's Commission which stated that the Postal Service should focus on its core value of universal mail service and should be restricted to products and services related to that obligation. At the same time, the Postal Service should continually try to find new ways to make its products and services useful for mailers.

13. The Service's Transformation Plan stated that the Service needs additional pricing flexibility to provide its customers with moderate and predictable rate adjustments. The

Presidential Commission on the Postal Service also called for such flexibility, and recent legislation would provide it. If additional pricing flexibility was allowed, how should the role of the Board of Governors be changed to ensure that postal rates remain affordable and what would be appropriate accountability mechanisms?

Pricing flexibility is necessary if the Postal Service is expected to act in a more business-like fashion. I believe a price cap like the one proposed in S. 662 is appropriate but the Board should have authority to set rates within that price cap without prior approval. The President's Commission also recommended that the Board of Governors and management should have the authority to set rates within limits established by the regulator without obtaining prior approval.

Transparency and Accountability

14. The Postal Service is required to annually report to Congress on its plans and performance related to its major goals. This information is vital to congressional oversight. However, some concerns have been raised about the integrity of some data used to measure performance. What can the Board of Governors do to help ensure the integrity of postal performance data?

It is the Board's role to ensure that the Postal Service has internal control procedures that provide accurate and reliable information. It is my understanding that the Postal Service has recently created an internal control group intended to enhance the integrity of its data collection efforts.

15. Some mailers have suggested that the Postal Service should establish a set of service standards for specific classes of mail and that the standards, performance goals, and performance be measured and reported regularly, with timely updates included on the Postal Service's web site. Do you agree with the suggestion and should the Board encourage the Service to provide more transparency to the public on its performance information?

I am supportive of the overall goal of developing service standards and providing performance data against those standards. However, I do not know enough about the details and would have to study it further.

Mail Safety and Security

16. What are the tradeoffs that should be considered to determine what actions USPS should take to enhance the safety and security of the mail? What are the potential impacts on postal operations and service delivery? How should the additional costs for enhancing mail security be funded--i.e., taxpayers or ratepayers?

Without specifics, it is difficult to respond precisely to this question. Each situation requires an analysis of the specific risk and an analysis of the potential ways to mitigate the risk. Likewise, the decision as to who should bear the cost would depend on the risk.

I believe it was appropriate for the Postal Service to request and receive appropriated funds to respond to the anthrax attacks of 2001.

Postal Rates

17. The postal ratemaking process has been frequently criticized for being too cumbersome, taking too long, and being too adversarial, and for limiting the Service's ability to quickly adjust postage rates in a highly competitive and changing marketplace. Do you believe changes are needed in this area, and if so, what types of changes?

Without a doubt, the current process is too long. Including the time that it takes for the Postal Service to develop the data for the case, litigate the case before the Postal Rate Commission and implement the data, the process can take 18 months. During that time, the economic climate can change significantly. I believe a price cap, as proposed by S. 662 is appropriate, as long as the Postal Service is given the appropriate tools to manage within that cap.

18. Many postal customers are concerned about the prospect of more frequent and larger rate increases as the Service faces an increasingly difficult financial situation. Can the Service continue to operate by regularly increasing rates and remain competitive? What are your views with respect to the need and timing of rate increases?

I believe that smaller, regular price increases, as are done by a number of companies, can help our customers plan and manage their mailing budgets. However, this can only be achieved with appropriate pricing flexibility and the ability to manage our costs.

Personnel-Related Issues

19. One longstanding postal issue has been the need to improve labor-management relations within the Postal Service. What can the Board of Governors do to encourage and facilitate greater cooperation between postal management and labor unions?

Good labor-management relationships are key to any successful business. The Board and postal management must work together to build and maintain a world-class workforce. The Board's role should be to ensure that good labor-management relations are a priority for the Postal Service and hold management accountable for achieving them.

20. The Service has projected that within the next 5 years, about 60 percent of its executives and 45 percent of its managers and supervisors will be eligible to retire.

- a. How can the Board work with postal management to address these challenging succession, continuity, and associated costs issues?

The Board must ensure that management has developed the necessary training and development programs, as well as effective succession planning mechanisms, to move the organization forward.

- b. You chaired the Workforce Subcommittee of the Presidential Commission on the Postal Service, which recommended addressing this problem by repealing the statutory pay cap for postal executives and linking their pay more closely to performance. Under the system proposed by the Subcommittee, the Postal Board of Governors would be given the authority to set pay for postal executives at "levels competitive with the private sector." Please explain your opinion of this recommendation and please explain your understanding of its premise and rationale. How do you believe "competitive with the private sector" should be defined in this context, and how should such pay levels be ascertained? If the pay cap was lifted and the Board were given the authority the Subcommittee recommended for them, how do you believe the performance of postal executives should be determined?

I support the recommendation of the Subcommittee. I believe the Board should be given the authority, and be held responsible for, setting the pay for senior management, just as corporate Boards do. The Subcommittee believed, and I agree, that it is not feasible to pay senior management salaries fully commensurate with the private sector, but their pay should be moved in that direction. This would make it more likely that the Postal Service could attract and retain world class managers to meet the significant challenges facing us in the future. It would be essential that this pay system be based on individual and corporate performance.

21. In the Workforce Subcommittee's final recommendations, it was noted that 47 percent of the Postal Service's current career employees will be eligible for retirement by 2010. The subcommittee went on to urge the Postal Service to "take full advantage of this attrition opportunity and to exercise maximum discipline in its hiring practices in order to right-size and realign its workforce with minimal displacement."
- a. In your view, has the Postal Service taken sufficient advantage in recent years of the opportunity retirements offer to re-shape the workforce?

Yes, I believe the Postal Service is successfully using its attrition to right-size its workforce. To date, the Postal Service has roughly 100,000 fewer employees than it did in 1999. This has happened while the Postal Service has maintained record levels of performance and increased productivity.

- b. The Postal Service's 2004 annual report states that, while overall mail volume continues to grow very slowly and, in some cases, to decline, the Postal Service must still deliver to between 1.6 million and 1.9 million new delivery points each year. Is it possible the Postal Service's efforts to "right-size and realign" might have an impact on their ability to serve new and existing customers?

I believe it is possible for the Postal Service to continue to serve its customers, even with a smaller workforce. Like any business, the Postal Service must continually search for new ways to improve its processes.

- c. How do you believe the Postal Service can ensure that whatever steps it takes to “right-size and realign” its workforce are consistent with its universal service obligation and with any existing strategies on related issues such as automation, facilities consolidations, and worksharing?

The Board must ensure that the Postal Service is continually reviewing the service it provides to its customers to ensure that the continued right-sizing is not adversely affecting its performance or its customer satisfaction.

22. Concerns have been raised regarding diversity within the Postal Service, particularly in the composition of top executives and in contracting practices. What role do you see for the Board of Governors in addressing these concerns?

The Board’s role is to guide management to ensure that opportunities are available to a diverse workforce. I believe this should be an integral part of the Postal Service’s management development and succession planning process. I understand that the Postal Service was named by Fortune as one of the “50 Best Companies for Minorities” for four years in a row.

23. The Postal Service has recently become subject to Occupational Safety and Health Act (OSHA) work place safety laws in the same manner as other employers. How can the Board of Governors ensure compliance with this law and encourage efforts to improve the safety of the workplace?

The Board must ensure that the Postal Service is complying with all statutes, including OSHA. In the same way the Board provides guidance so that the Postal Service is creating a good labor-management climate and developing all its employees, the Postal Service must continually strive to create and maintain a safe workplace.

24. The Workforce Subcommittee recommended that the 1970 Postal Reorganization Act be revised to clarify the meaning of the word “comparability” as it applies to compensation for Postal Service employees. It further recommended that the Postal Regulatory Board, the successor body to the Postal Rate Commission that the President’s Commission recommended creating, be given the authority to determine how postal pay should compare to private sector pay and use its findings to place a cap on postal compensation.

- a. Please explain your opinion of this recommendation and please explain your understanding of its premise and rationale.

Any company, in order to attract and retain qualified and talented employees, must provide competitive total compensation. This must include both wages and benefits. Because its employees are covered by statutory retirement, health, and life insurance programs, the Postal Service is not able to bargain over this total compensation package. Rather, it must focus almost exclusively on wages. Given that fact, it seemed the most appropriate entity to determine total compensation comparability was the independent

Postal Rate Commission. Many people argued to the Commission that postal employees receive a wage that is in excess of the private sector. The Workforce Subcommittee believed, and I agree, that it is unfair to ask postal rate payers to finance postal compensation that is above the provisions of the law. The Subcommittee believed that the fairest way to achieve comparable pay was for the regulator to determine comparable wages to the private sector and, if a wage premium does exist, put a cap on wages for newly hired employees, creating a two-tiered wage system. I agree that would be the fairest way to get postal wages comparable with, but not in excess of, the private sector over time.

- b. What types of workers do you believe postal employees should be compared with for the purpose of determining whether their compensation is comparable to private sector compensation?

The Postal Reorganization Act states that the policy of the Postal Service shall be to maintain compensation and benefits on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector. The Postal Service has consistently taken the position, which I support, that wages and benefits for postal employees should be compared to wages and benefits for comparable levels of work broadly throughout the private sector. The Postal Service hires people from virtually every part of the private sector. Since the private sector, in the broadest sense, is where the employees of the Postal Service would otherwise be employed, it is reasonable to compare wages and benefits to this broad group.

25. Some have argued that the collective bargaining process used during contract disputes between the Postal Service and its bargaining unit employees is inefficient and often leads to outcomes that are not in the Postal Service's best interests. Others argue that it works well in that it offers both sides the flexibility to reach a negotiated settlement and avoid arbitration. Postal reform legislation reported out of this Committee last year (S. 2468, the Postal Accountability and Enhancement Act) includes a number of changes to the collective bargaining process. Do you support these changes? Are there any further statutory changes to the process that you support? Please explain why you support these further changes, if any. If confirmed, how would you recommend that postal management approach future contract negotiations? Which issues do you think should be the focus of future negotiations?

I support replacing the fact-finding process with mandatory mediation. This was part of the recommendation of the President's Commission, which believed that the collective bargaining process should be improved to create additional incentives for the parties to reach negotiated settlements. I would support an additional statutory change, as recommended by the Commission: the "Med-Arb" approach. This approach would start with mandatory mediation, but if mediation failed, the mediator would become a member of the arbitration panel. Making the mediator part of the arbitration panel ensures that both parties build on their progress to date and do not revert back to their original hard-line positions.

I believe the Postal Service should approach future contract negotiations with a clear understanding of the challenges ahead if first class mail volume continues to decline and costs continue to rise. Future negotiations should also take into account the need for the Postal Service to continue to have a world class work force and meet acceptable service and performance standards.

26. What actions in your past experience demonstrate your approach in the area of labor-management relations? Please describe the kind of labor-management relationship you believe is most desirable at the Postal Service, and what steps do you believe should be taken to achieve it?

I have managed several labor intensive operations over the last 25 years, including a manufacturing and a distribution business. In all of these, my approach was to try to create an environment where all employees were treated fairly and felt ownership in the success of the business. I believe that the top management of the Postal Service today has the same goal and is working hard to improve labor-management relations. As a concrete result of these efforts from both parties, I would note that the Postal Service has experienced a steady decline in the number of grievances, a 61% reduction since 2002.

Post Office Closings

27. A major issue frequently raised by the public relates to the Postal Service's decisions on locating, relocating, or closing post offices. Some are concerned that the Postal Service does not adequately involve affected communities in the decision-making process. What are your views on this issue?

I believe communities should have an opportunity to provide input in the decision-making process. At the same time, the need for the Postal Service to provide universal mail service in an efficient manner in order to keep rates affordable for all Americans must be considered as well.

28. The Postal Service recently announced that it is removing its moratorium on post office closings and is reviewing what postal facilities may be closed. The Service's decisions in this area will be closely scrutinized. How can the Service ensure that its decisions related to closing postal facilities are perceived as fair and objective?

The Board must ensure that decisions the Postal Service makes on any facility issues improve or maintain overall customer service, while improving or maintaining efficiency.

29. The Postal Service currently operates more than 400 processing and logistics facilities separate from its retail processing network. The President's Commission noted that the Postal Service has more of these facilities than it needs and called for the closing and consolidating of some of them in order to remove excess capacity and cut operating costs.
- a. Do you agree with this assessment?

Yes, I believe the Postal Service has facilities that could be closed without adversely affecting customer service.

- b. Do you believe that the Postal Service has been as aggressive as it should be in realigning its processing and logistics network?

I believe the Board should make network realignment a priority for management. However, I understand there are constraints which make it very difficult for the Postal Service to move as aggressively as it could in closing facilities.

- c. What do you believe the Postal Service needs to do in order to ensure that whatever steps it takes to close or consolidate facilities in its processing and logistics network are consistent with its universal service obligation and with any existing strategies on related issues such as automation, worksharing, and personnel management?

Again, I believe the Board must ensure that any facility decision made by the Postal Service must improve or maintain overall customer service, while improving or maintaining efficiency

IV. Relations with Congress

30. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Yes.

31. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

Yes.

V. Assistance

32. Are these answers your own? Have you consulted with the USPS or any interested parties? If so, please indicate which entities.

Yes. I consulted with the Postal Service's Office of Government Relations.

AFFIDAVIT

I, Carolyn Gallagher, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.

Carolyn Gallagher

Subscribed and sworn before me this 12 day of April, 2005.

Michael D. Pierce
Notary Public

Michael D. Pierce
Notary Public, District of Columbia
Commission Expires 04-14-2006

**Post-Hearing Questions Submitted by
Senator Frank R. Lautenberg
For the Nomination of Carolyn L. Gallagher to be
Governor, United States Postal Service
May 19, 2005**

- 1) How do you propose the U.S. Postal Service cuts costs? Do you think a postal rate increase, which would cost private industry millions of dollar, is appropriate? Do you propose cuts to postal worker's wages and benefits to cut costs?

The best way for the Postal Service to cut costs is to operate as efficiently as possible. There is great opportunity in realigning the network, process standardization and improvement, and the development of technology. This year the Postal Service had no choice but to file for a rate increase in order to pay the escrow, established by P.L. 108-18.

I do not believe that wages for existing postal employees should be cut. Almost all of the benefits received by Postal employees are mandated by the Federal government and beyond our control.

- 2) As a Governor of the Postal Service, you will have an opportunity to exercise oversight over the work of postal managers responsible for labor relations and collective bargaining, what is your position on collective bargaining on the part of employees for the U.S. Postal Service? Do you think Postal employees should remain under federal pensions and federal health care programs?

I support collective bargaining for postal employees. I believe postal employees should remain part of the Federal pension and health care programs but that the terms should be subject to collective bargaining.

- 3) Do you think any parts of the Postal Service should be subject to outsourcing? Can the private industry perform the universal service responsibilities of the postal service better than the U.S. Postal Service?

I do not believe that private industry can fulfill the universal service obligation better than the Postal Service. However, I agree with the recommendation of the President's Commission that those postal functions that can be performed better and at lower cost by the private sector should be outsourced.

**Questions for the Record for Carolyn L. Gallagher
Nominated to Serve as a Member of the Board of Governor, USPS
Submitted by Senator Daniel K. Akaka
Committee on Homeland Security & Governmental Affairs
May 19, 2005**

1. Ms. Gallagher, you chaired the Workforce Subcommittee of the President's Commission on the United States Postal Service, which issued a series of recommendations to the President and Congress. The Workforce Subcommittee recommended that the Postal Service's regulator be empowered to impose a cap on postal employee compensation while regulating the collective bargaining agreements reached by the U.S. Postal Service and its unions. Another recommendation called on Congress to repeal the current cap on executive compensation at the Postal Service.

Did you or other members of the Workforce Subcommittee see any inconsistency in calling for regulating the pay of line employees while deregulating the pay of executives?

Many people argued to the President's Commission that postal employees receive a wage that is in excess of the private sector. Executives, on the other hand, clearly receive compensation significantly below that of the private sector due to the statutory pay cap. In order to attract and retain world class talent, the Postal Service needs to provide compensation that is comparable to the private sector at all levels.

2. The Workforce Subcommittee recommended that the Postal Service's regulator be involved in the postal collective bargaining process. Did you or other members of the Workforce Subcommittee believe that postal employees would accept such a process as fair and true collective bargaining, and did the Workforce Subcommittee base its recommendation on other entities with unionized workforces whose regulators have such a role?

The Subcommittee recommended that the regulator be involved only in determining if postal employees receive total compensation that is in excess of the private sector because it is unfair to ask ratepayers to finance compensation that is above the requirements of the law.

3. As you know, the Postal Service is one of the most heavily unionized enterprises in the country. Have you had any experience with unions in your business career, and will you be open to working with the leaders of the different postal unions if you are confirmed to be a member of the USPS Board of Governors?

I have not had experience working with unions and would be very open to working with union leaders whenever appropriate in my role as Governor.

4. As a member of the President's Commission on the Postal Service, you supported a legislative recommendation to return to the U.S. Treasury the responsibility for funding military pension benefits earned by postal employees for service the U.S. uniformed services before they were hired by the USPS. Do you still support that recommendation, and will you advocate this change as a Governor even though the Administration opposes it?

I do still support this position and continue to advocate this change.

5. Do you foresee any circumstance that would cause the Board of Governors to intervene in a collective bargaining decision?

I believe the Board of Governors should work with management to set the goals for collective bargaining and that management should be responsible for the negotiations.

6. The Postal Rate Commission's Periodic Reporting Rule requires the Postal Service to file certain basic financial data as soon as its standard financial reports are compiled, rather than withholding the information until a rate case is filed. The PRC reporting rule was revised in 2003 to require more up-to-date data. However, the Postal Service has refused to comply with the 2003 revisions and in 2004 argued that Congress did not intend for the Postal Service to make relevant, periodically produced information available to the public when no rate case was pending.

Do you support the view that information that the Postal Service uses to develop its standard financial reports should be withheld from the Postal Rate Commission and the public if no rate case is pending, and if so, what is the basis for your response?

The revisions to the periodic reporting rules require annual or frequent transmission of significant amount of very detailed data. I understand that while some information was provided, other data was not. Withholding some of the data was due to the fact that the Commission's rules stated that all the data would be posted on its website, even if the Postal Service deemed it commercially sensitivity. In addition, I understand the Postal Service does not agree that such voluminous information is needed annually to allow the Commission to review rates cases.

I believe that the Postal Service has made great strides towards transparency and posts significant financial data monthly on its website.

7. I understand that the Postal Service recently refused to comply with Postal Rate Commission rules relating to making certain basic background financial data public, as I mentioned above. The purpose of the revised rule to require information between rate cases is so that mailers and the Postal Rate Commission can evaluate more quickly Postal Service rate requests. Was the Board of Governors consulted before the decision to withhold information was made? If confirmed, do you believe it is the role of the Governors to approve or disapprove of such actions?

Yes, the Board has been consulted throughout the discussions with the PRC. It was appropriate for the Board to review management's response to these rules since they would significantly increase the Postal Service's need to produce voluminous amounts of data and could adversely affect the Postal Service's ability to restrict commercially sensitive data.

8. Do you believe that compliance with the Commission's Periodic Reporting Rules would give mailers who participate in rate cases an unfair advantage? If so, is the decision to withhold the information intended to preserve a litigation advantage for the Postal Service in rate cases? If not, please explain why the Postal Service needs to withhold this information when it is eventually made public in a rate case?

I understand the Postal Service decision attempted to maintain the current statutory balance between the PRC and the Postal Service, and protect commercially sensitive data. Obviously, the Postal Service must provide significant data during rate proceedings, to allow all parties to review the evidence. However, I understand the Postal Service believes such disclosure is not needed and potentially harmful when no specific rate proposal is before the Commission.

9. You stated in your response to a pre-hearing question that "... the Postal Service should focus on its core value of universal mail service and should be restricted to products and services related to that obligation. At the same time, the Postal Service should continually try to find new ways to make its products and services useful for mailers." Do you have any specific new products or services in mind, and what do you believe is the proper role of the Board or Governors in approving or disapproving of new products or services?

I think the Postal Service is pursuing several initiatives to make its products and services more useful. Click N Ship and Automated Postal Centers are two examples. I believe the development of intelligent mail could be a significant service improvement. The Strategic Planning Committee of the Board of Governors is responsible for reviewing new product and service initiatives to ensure that they relate to the core business of the Postal Service and make good business sense.

**Post-Hearing Questions Submitted by
Senator Joseph I. Lieberman
For the Nomination of Carolyn L. Gallagher to be
Governor of the United States Postal Service**

1. Postal employment is a relatively hazardous form of federal employment. These hazards have always included dog bites, repetitive motion injuries, and motor vehicle accidents. And in the last few years, we have seen that postal workers are vulnerable to certain terrorist acts such as the mailing of anthrax. What do you believe should be done to make working for the Postal Service safer?

The Postal Service has taken a number of steps to make working for the Postal Service safer. As a result, we have experienced a 13.7% reduction in the Occupational Safety and Health Administration (OSHA) injury and illness rate. The Postal Service has worked with its unions to partner with OSHA to implement OSHA's Voluntary Protection Program. The Postal Service has also worked with its unions to develop its Ergonomic Risk Reduction Process. In addition, the Postal Service has developed and implemented a Biohazard Detection System and a Ventilation and Filtration System to protect employees who work around the automated equipment.

The Board will work with management to continue these, and other, important safety programs.

2. In its pre-hearing policy questionnaire, this Committee asked what you thought the Board of Governors can do to encourage and facilitate greater cooperation between postal managers and labor unions. You and Governor Guiliano provided very similar answers regarding the appropriate role for the Board. You responded that the Board's role should be to make good labor-management relations a priority, and to hold management accountable for achieving them; and Governor Guiliano responded that the Board's role is in setting the tone for a positive work environment and in making sure that management is able and committed to creating such an environment.

a. To follow up on these answers, what do you believe should be the role of the Board of Governors specifically in the area of collective bargaining? To what extent should the Board provide goals or instructions to postal managers responsible for collective bargaining, and to what extent should the Board leave discretion to managers? Insofar as the Board holds managers accountable in the area of collective bargaining, how do you believe success in collective bargaining should be defined?

With labor costs equal to almost 80% of the total cost of the Postal Service, the terms of labor contracts are an important contributor to its ability to keep rates affordable for all Americans. I believe the Board of Governors should be involved in setting the overall goals for the Postal Service in contract negotiations. The actual negotiations should be the responsibility of management. Collective bargaining will be successful when the interests of both parties are met as fairly as possible after considering all the relevant issues.

b. USPS collective bargaining agreements have, for many years, included provisions protecting employees against layoff. According to the report of the President's Commission, a majority of the Commission favored legislation to prohibit the Postal Service from agreeing to this kind of protection against layoffs for future employees. However, I understand that management of the Postal Service did not want to lose the flexibility of offering such layoff protection in collective bargaining agreements. What is your opinion of this view advanced by a majority of the Commission? Do you believe the Board of Governors should instruct postal managers responsible for collective bargaining whether they should or should not offer protection against layoffs as part of collective bargaining agreements, or do you believe the Governors should leave that decision to management?

I concur with the majority opinion, as laid out on pages 120 and 121 of the Commission report. I believe the Board of Governors should be involved in setting all the goals of collective bargaining but that management should conduct the negotiations.

c. What do you believe should be the respective roles of the Board of Governors and of Postal Service management in the process by which postal workers' wages are negotiated?

I believe the Board of Governors should work with management to set the goals of collective bargaining but management should be responsible for the negotiations.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)
Louis J. Giuliano
2. Position to which nominated:
USPS Board of Governors
3. Date of nomination:
11/3/04
4. Address: (List current place of residence and office addresses.)

Office Address: ITT Industries 4 W. Red Oak Lane White Plains, NY 10604	Alternative Off. Add: ITT Defense 1650 Tysons Blvd. McLean, VA 22102
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5. Date and place of birth:
October 12, 1946 in Mt. Vernon, NY
6. Marital status: (Include maiden name of wife or husband's name.)
Married (Barbara Dallow Giuliano)
7. Names and ages of children:
V. Jennifer Stapleton (34)
Kristie Stover (32)
8. Education: List secondary and higher education institutions, dates attended, degree received and date degree granted.

6/68 – 8/69 – Syracuse University – MBA
9/64 – 6/68 – Syracuse University – BA
9/60 – 6/64 – Pelham High School - Diploma
9. Employment record: List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)

SEE ATTACHED
10. Government experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.

NONE

11. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

ITT Industries – Director, Officer
Meshnetworks – Director
George Group – Consultant
Engelhard Corp. – Director
ServiceMaster - Director

12. Memberships: List all memberships and offices held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.

Lay Counselor Institute – Director
II Corinthians Foundation – Officer and Director
Business Round Table – Member
Syracuse Univ. – Martin J. Whitman School of Business – Member Advisory Council

13. Political affiliations and activities:

- (a) List all offices with a political party which you have held or any public office for which you have been a candidate. - **NONE**
- (b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years. **NONE**
- (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.

2000 - \$2000 – RNC
2004 - \$2000 - RNC

14. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

Association of United States Army – Dixon Award

15. Published writings: List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written. - **NONE**

16. Speeches: Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated. – **N/A**

17. Selection:

- (a) Do you know why you were chosen for this nomination by the President?

Industry experience, leading a public corporation, with a focus on process improvement.

- (b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

Governance experience. Knowledge and experience with tools and processes for continuous improvement of activities.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

No. Expect to remain in current positions, except for ITT Industries. Will leave ITT Industries position in January, 2005.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

Yes. Expect to join one additional public company board.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm association or organization? - No

4. Has anybody made a commitment to employ your services in any capacity after you leave government service? - No

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? - Yes

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

401K plan and deferred compensation account is expected to stay with ITT Industries. The deferred compensation is in a shadow investment account that is provided by ITT Industries to hold past earned, but deferred income. The account tracks publicly traded investment funds.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

None to my knowledge.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None to my knowledge.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

Have called upon Pentagon officials and members of Congress to encourage funding of various DoD procurement programs. All relating to activities of interest to ITT Industries' Defense business.

Have called on Senators to encourage passage of tort and asbestos reform legislation.

Have met with Treasury officials to encourage passage of pension legislation.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements.)

Do not believe there are any conflicts of interest.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

YES

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

NO

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

NO

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

NO

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense?

NO

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

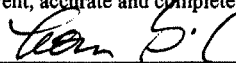
NONE

E. FINANCIAL DATA

All information requested under this heading must be provided for yourself, your spouse, and your dependents. (This information will not be published in the record of the hearing on your nomination, but it will be retained in the Committee's files and will be available for public inspection.)

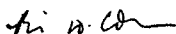
AFFIDAVIT

LOUIS GIULIANO being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate and complete.

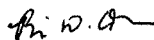


Signature of Nominee

Subscribed and sworn before me this 6th day of December, 20 04



Notary Public



ROBIN D. COHEN
Notary Public, State of New York
No. 01CO8103752
Qualified in Westchester County
Commission Expires January 12, 20 08

9. Employment record: List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)

Manager of Market Research 9/69 – 5/70	Bendix Environmental - Sci. Div. Towson, MD
Active Duty – US Army 5/70 – 1/72	Ft. Sill, Ft. Riley Vietnam
Marketing Manager 3/72 – 9/74	Bendix Filter Div. Madison Heights, MI
Manager Strategic Planning 10/74 – 10/75	Bendix Aerospace Group Rosslyn, VA
Director of Programs 10/75 – 10/78	Bendix Environmental – Sci. Div. Towson, MD
Plant Manager 10/78 – 6/79	Bendix Environmental & Process Inst. Div. Towson, MD
VP & GM 6/79 – 10/83	Bendix Avionics Div. Ft. Lauderdale, FL
VP & Group Exec. 10/83 – 7/86	Bendix Avionics Systems Group Rosslyn, VA
President 7/86 – 6/88	Bendix Electronics Systems Co. Rosslyn, VA
VP Defense Operations 7/88 – 6/91	ITT Defense Technology Corp. Arlington, VA
President & CEO 6/91 – 10/92	ITT Defense Arlington, VA
President & CEO 10/92 – 10/98	ITT Defense & Electronics Arlington, VA
President & COO 10/98 – 2/01	ITT Industries White Plains, NY
Chairman, President & CEO 3/01 – 7/04	ITT Industries White Plains, NY
Chairman 7/04 – Present	ITT Industries White Plains, NY



United States
Office of Government Ethics
 1201 New York Avenue, NW., Suite 500
 Washington, DC 20005-3917

November 9, 2004

The Honorable Susan M. Collins
 Chair
 Committee on Governmental Affairs
 United States Senate
 Washington, DC 20510-6250

Dear Madam Chair:

Under the Ethics in Government Act of 1978, Presidential nominees requiring Senate confirmation who are not expected to serve in their Government positions for more than 60 days in a calendar year are not required to file public financial disclosure reports. The Act, as amended, however, contains a provision in section 101(b) which allows the committee with jurisdiction to request any financial information it deems appropriate from the nominee.

We understand that your committee desires to receive a financial disclosure report (SF 278) from any Presidential nominee for a position on the Board of Governors of the United States Postal Service, along with a written opinion from this Office regarding any possible conflicts of interest.

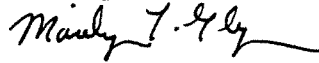
Therefore, I am forwarding a copy of the financial disclosure report of Louis J. Giuliano, who has been nominated by President Bush for the position of Governor on the Board of Governors of the United States Postal Service. Because Mr. Giuliano is not expected to serve more than 60 days in any calendar year, the enclosed report and this letter are submitted to you in accordance with your committee's confirmation procedures and will be available for public inspection only to the extent provided by your practices. There is no authority under the Act for public release of this material by the executive branch.

We have reviewed the report and have obtained advice from the United States Postal Service concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is a letter dated October 13, 2004, from Mr. Giuliano to the agency's ethics official, outlining the steps which Mr. Giuliano will take to avoid conflicts of interest. Unless a specific date has been agreed to, the nominee must fully comply within three months of his confirmation date with the actions he agreed to take in his ethics agreement.

The Honorable Susan M. Collins
Page 2

Based thereon, we believe that Mr. Giuliano is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marilyn L. Glynn", with a long horizontal flourish extending to the right.

Marilyn L. Glynn
Acting Director

Enclosures

**U.S. Senate Committee on Homeland Security and Governmental Affairs
Pre-Hearing Questionnaire for the Nomination
of Louis J. Giullano to be
Governor of the United States Postal Service**

I. Nomination Process and Conflicts of Interest

1. Why do you believe the President nominated you to serve as Governor of the United States Postal Service (USPS)?

The White House personnel office stated that the President wanted to see the Postal Service run more like a business and, therefore, wanted someone with operational experience and a strong corporate governance background. They identified me by performing a search for Fortune 500 Chief Executive Officers (CEOs) who had announced their intention to retire.

2. Were any conditions, expressed or implied, attached to your nomination? If so, please explain.

No.

3. What specific background and experience affirmatively qualifies you to be a Governor of the USPS?

I have served as Chairman and CEO of ITT Industries. As such I chaired ITT's Board and managed the activities of a large, multi-national corporation. I have also had years of experience serving as a Director on several public and private company boards, providing extensive corporate governance experience. I have more than 35 years of experience in operations, engineering, and financial management. During my career, my primary focus has been on leadership development and process improvements.

4. Have you made any commitments with respect to the policies and principles you will attempt to implement as Governor? If so, what are they and to whom have the commitments been made?

No.

5. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures you will use to carry out such a recusal or disqualification.

I have no conflicts that I am aware of that would disqualify me or require me to recuse myself from any decision. If a conflict were to arise, I would work with the General Counsel on an appropriate resolution.

II. Role and Responsibilities of Governor

6. What do you see as the main challenges facing the Postal Service? How should the Board of Governors work with postal management to address these challenges?

The main challenge facing the Postal Service is finding ways to grow the Postal Service's business opportunities in the face of competing information delivery alternatives that affect all classes of mail. The Postal Service must continually improve critical processes to enhance effectiveness, competitiveness and customer service.

The Board's responsibility is to work in an advisory capacity by reviewing management's key strategies, governance issues, and top level goals and priorities.

7. What do you think should be the Board of Governors' top priorities?

The Board's priorities should be in reviewing the strategic directions and long-term strategies with Postal management; ensuring that adequate governance and ethics processes are in place; and ensuring the existence of effective management evaluation and succession planning and procedures.

8. The Governors are chosen to represent the public interest generally. How do you plan to interact with various stakeholders interested in postal issues and how do you think as a Governor you can effectively represent their interests?

I would be available to meet, if appropriate, with any interested party who wishes to discuss Postal issues with me. I plan to attend industry activities, tour postal facilities, and stay abreast of stakeholder positions through various forms of media.

9. How do you view the role of a Governor of the Postal Service? What would you highlight from your experience that will enhance your effectiveness in this role?

I believe the role of a Governor is to review and oversee management plans and activities, as I have done in my other Board capacities. My previous Board experience gives me some understanding of this role with several large companies in a variety of industries.

III. Policy Questions

Postal Financial and Transformation Issues

10. Recent data shows that the Postal Service is facing declining mail volumes and revenues in some of its key revenue-producing areas, especially First-Class Mail, due to competition and electronic diversion. What approach should the Postal Service take to maintain its viability and competitiveness?

This condition is not unlike the situations facing many businesses today. The overarching strategy to maintain viability and competitiveness must include new and more effective ways to serve customers through new and attractive products and services. In addition, the Postal Service must continually review and improve critical processes to minimize assets used and reduce waste and re-work. From what I have seen so far, the Postal Service is making important strides in both of these areas but there is still plenty of opportunity remaining.

I accepted the opportunity to be nominated to the Postal Board of Governors after talking to senior management and determining that they are serious about making positive changes and had demonstrated that in the recent past.

11. Some concerns have been raised about whether it is appropriate for the Postal Service to offer certain new products and services. What are your views regarding whether it is appropriate for the Postal Service to offer products and services that compete with private sector companies?

I believe that any business will do better if they stay close to products and services in which they have expertise and a market presence. The Postal Service should continue to identify its customers' needs and how those needs are changing. The Postal Service must have the ability in the future to meet the needs of its customers as they pursue their own businesses by using the mail. The recent introduction of Click 'N Ship and Automated Postal Centers (APCs) are important steps in this direction. Both initiatives allow easier access to the Postal system and are more cost effective for the Postal Service.

12. The Service's Transformation Plan stated that the Service needs additional pricing flexibility to provide its customers with moderate and predictable rate adjustments. The Presidential Commission on the Postal Service also called for such flexibility, and recent legislation would provide it. If additional pricing flexibility was allowed, how should the role of the Board of Governors be changed to ensure that postal rates remain affordable and what would be appropriate accountability mechanisms?

I have no doubt that if the Congress and the Administration want the Postal Service to run more like a business, continue to be self-supporting, and continue to meet its universal service obligation, then the Postal Service must be given true pricing flexibility. The appropriate role of the Board is to make sure that any pricing flexibility is applied fairly and in such a way to ensure that the Postal Service enhances its competitive position. Continually improving competitiveness benefits all stakeholders.

The proposed legislation which would create a price cap would be a good step to ensuring that rates remain affordable. An article in the Washington Post recently noted that postal prices had risen below the rate of the Consumer Price Index between 1978 and 2005. While that will be difficult in the future, due to decreasing First-Class Mail volume and the continually increasing delivery network, we would hope to continue that in the future. I am hopeful that pricing flexibility, combined with aggressive process

improvements, could possibly allow the Postal Service to decrease some prices and increase revenue.

Transparency and Accountability

13. The Postal Service is required to annually report to Congress on its plans and performance related to its major goals. This information is vital to congressional oversight. However, some concerns have been raised about the integrity of some data used to measure performance. What can the Board of Governors do to help ensure the integrity of postal performance data?

My understanding is that the Postal Service has significant and effective internal controls, and they are moving forward with complying with appropriate portions of Sarbanes-Oxley. The internal controls are reviewed by the Office of the Inspector General, as well as an external, independent certified public accounting firm. In addition, there are mechanisms to evaluate the capability of the management team. These are the primary ways of ensuring integrity of data, as well as evaluating the character and integrity of the management team.

14. Some mailers have suggested that the Postal Service should establish a set of service standards for specific classes of mail and that the standards, performance goals, and performance be measured and reported regularly, with timely updates included on the Postal Service's web site. Do you agree with the suggestion and should the Board encourage the Service to provide more transparency to the public on its performance information?

The Board's responsibility is to ensure that Postal management has processes in place to measure its customer performance over time. The Board needs to oversee management efforts to set goals to continually improve performance levels and to evaluate management's performance against those goals. In an effort to continually improve their customer satisfaction, if mailers want to know what the expected service will be, they should be told.

Mail Safety and Security

15. What are the tradeoffs that should be considered to determine what actions USPS should take to enhance the safety and security of the mail? What are the potential impacts on postal operations and service delivery? How should the additional costs for enhancing mail security be funded--i.e., taxpayers or ratepayers?

This is a critical risk management issue, which depends on the assessment of a given threat. The impacts could be dramatic or minimal, resulting from the specific risk assessment. This is a difficult question to answer in the abstract. I believe the Postal Service's response to the anthrax attacks of the fall of 2001, particularly the development and installation of bio-detection systems, were appropriately funded by the taxpayers because of the special position of the Postal Service given its universal service obligation.

In other instances or for other risks, it may be more appropriate for ratepayers to fund the risk mitigation.

Postal Rates

16. The postal ratemaking process has been frequently criticized for being too cumbersome, taking too long, and being too adversarial, and for limiting the Service's ability to quickly adjust postage rates in a highly competitive and changing marketplace. Do you believe changes are needed in this area, and if so, what types of changes?

The current rate making process is too long and, I believe, creates higher mailing costs than are necessary. Minimizing the time frame is a step in the right direction. Moving to a rate cap system and allow the Postal Service to adjust the rates within the cap without prior review would be an important step in the right direction.

17. Many postal customers are concerned about the prospect of more frequent and larger rate increases as the Service faces an increasingly difficult financial situation. Can the Service continue to operate by regularly increasing rates and remain competitive? What are your views with respect to the need and timing of rate increases?

I believe that with appropriate reform legislation and management continually working to improve processes, control costs, and improve customer satisfaction, the Postal Service can maintain and improve its competitive position.

Personnel-Related Issues

18. One longstanding postal issue has been the need to improve labor-management relations within the Postal Service. What can the Board of Governors do to encourage and facilitate greater cooperation between postal management and labor unions?

Labor-management relationships are important in every large organization. The Board's role is in setting the tone for positive work environment and making sure that management is able and committed to creating a positive work environment.

19. The Service has projected that within the next 5 years, about 60 percent of its executives and 45 percent of its managers and supervisors will be eligible to retire. How can the Board work with postal management to address these challenging succession, continuity, and associated costs issues?

The Board's primary responsibility is to ensure that the appropriate management development and succession planning processes are in place. It is essential that the Board and Postal management interact with employees at multiple levels of the organization to assess the abilities and talent of current employees. I have found that the greater the interaction, the more talented employees are identified. Done correctly, this period can be a great opportunity to accelerate change, reduce levels of management, and increase competitiveness.

20. In the Workforce Subcommittee of the Presidential Commission on the Postal Service's final recommendations, it was noted that 47 percent of the Postal Service's current career employees will be eligible for retirement by 2010. The subcommittee went on to urge the Postal Service to "take full advantage of this attrition opportunity and to exercise maximum discipline in its hiring practices in order to right-size and realign its workforce with minimal displacement."

- a. In your view, has the Postal Service taken sufficient advantage in recent years of the opportunity retirements offer to re-shape the workforce?

Yes, the Postal Service has made progress by taking advantage of significant attrition without major disruption, or sacrificing service, or labor management disharmony. The key to this effort is to maintain the rate of attrition in the future, while the Postal Service improves their processes and increases customer service.

- b. The Postal Service's 2004 annual report states that, while overall mail volume continues to grow very slowly and, in some cases, to decline, the Postal Service must still deliver to between 1.6 million and 1.9 million new delivery points each year. Is it possible the Postal Service's efforts to "right-size and realign" might have an impact on their ability to serve new and existing customers?

Yes, it is possible. The Postal Service must focus on customer needs and improving customer service. To do so, management must find ways to improve processes to account for the increasing delivery points while continuing to reduce the workforce.

- c. How do you believe the Postal Service can ensure that whatever steps it takes to "right-size and realign" its workforce are consistent with its universal service obligation and with any existing strategies on related issues such as automation, facilities consolidations, and worksharing?

The Postal Service can ensure that its realignment of its workforce is consistent with its obligations by continuing to monitor customer satisfaction and ensure levels of service are maintained or improved.

21. Concerns have been raised regarding diversity within the Postal Service, particularly in the composition of top executives and in contracting practices. What role do you see for the Board of Governors in addressing these concerns?

The Postal Service provides great job opportunities for Americans across the United States. Those opportunities are available to a well-diversified workforce. I would note that the Postal Service was recognized for the fourth straight year by Fortune magazine as one of the "50 Best Companies for Minorities."

I appreciate the concern regarding the diversity of the senior most executive ranks. I think one of the Board's responsibilities is to constantly strive for diversity of views in

senior management and Board activities. This will allow the Postal Service to more effectively understand and represent its customers.

22. The Postal Service has recently become subject to Occupational Safety and Health Act (OSHA) work place safety laws in the same manner as other employers. How can the Board of Governors ensure compliance with this law and encourage efforts to improve the safety of the workplace?

I understand that the Postal Service has been covered by the Occupational Safety and Health Act since 1998. The Board's responsibility here is the same for compliance with all statutes. The Governors must ensure Postal compliance and create an environment of continually improving processes so the number of injuries is continually reduced. The key is to constantly focus on improving critical processes.

23. The Workforce Subcommittee recommended that the 1970 Postal Reorganization Act be revised to clarify the meaning of the word "comparability" as it applies to compensation for Postal Service employees. It further recommended that the Postal Regulatory Board, the successor body to the Postal Rate Commission that the President's Commission recommended creating, be given the authority to determine how postal pay should compare to private sector pay and use its findings to place a cap on postal compensation.

a. Please explain your opinion of this recommendation.

Comparability is the backbone of compensation for most companies. There are many ways to determine comparable wages and that is an essential determination for the company to make. In the same way the Board and Postal management have responsibility to serve our customers, we should have the responsibility for determining what we believe comparability should be. As in the private sector, professional consultants should be available to the Board and management to ensure that pay practices are being developed and implemented fairly.

b. What types of workers do you believe postal employees should be compared with for the purpose of determining whether their compensation is comparable to private sector compensation?

I do not have an opinion at this time. Once again, there are professionals in this area that should be designated to work with management to determine appropriate comparables.

24. Some have argued that the collective bargaining process used during contract disputes between the Postal Service and its bargaining unit employees is inefficient and often leads to outcomes that are not in the Postal Service's best interests. Others argue that it works well in that it offers both sides the flexibility to reach a negotiated settlement and avoid arbitration. Postal reform legislation reported out of this Committee last year (S. 2468, the Postal Accountability and Enhancement Act) includes a number of changes to the collective bargaining process. Do you support these changes? Are there any further statutory changes to the process that you support? Please explain why you support these

further changes, if any. If confirmed, how would you recommend that postal management approach future contract negotiations? Which issues do you think should be the focus of future negotiations?

As a general statement, I believe collective bargaining is an evolutionary process, where management and labor are constantly testing for fairness, consistency, and comparability. It is essential that both parties treat each other with respect. It is essential that the outcome of the collective bargaining process allows the Postal Service to remain competitive.

25. What actions in your past experience demonstrate your approach in the area of labor-management relations? Please describe the kind of labor-management relationship you believe is most desirable at the Postal Service, and what steps do you believe should be taken to achieve it?

In my experience with labor-management relations, the capability of the representatives on both sides and the environment that they create in their relationship is key to a successful, long-term working relationship. Management must institute practices and policies that treat all employees fairly. The best relationships are marked by open, honest, respectful communication. Both parties should see not only their own issues and interests, but those of the postal customers as well.

Post Office Closings

26. A major issue frequently raised by the public relates to the Postal Service's decisions on locating, relocating, or closing post offices. Some are concerned that the Postal Service does not adequately involve affected communities in the decision-making process. What are your views on this issue?

My understanding is that the communities are involved in these decisions and are able to comment at different points in the process. I believe that is appropriate.

27. The Postal Service recently announced that it is removing its moratorium on post office closings and is reviewing what postal facilities may be closed. The Service's decisions in this area will be closely scrutinized. How can the Service ensure that its decisions related to closing postal facilities are perceived as fair and objective?

The Postal Service's guiding principles should be a focus on customer service, thorough Headquarters review and community involvement.

28. The Postal Service currently operates more than 400 processing and logistics facilities separate from its retail processing network. The President's Commission noted that the Postal Service has more of these facilities than it needs and called for the closing and consolidating of some of them in order to remove excess capacity and cut operating costs.

- a. Do you agree with this assessment?

I believe that the Postal Service, like every other business, has significant opportunities to revise and improve its processes.

- b. Do you believe that the Postal Service has been as aggressive as it should be in realigning its processing and logistics network?

The Postal Service has made good progress, resulting in its profitability improvement over the past several years. I recognize that there are many different stakeholders and points of view in infrastructure changes. The challenge for the Board and the Postal Service is not in making the operational decisions but in implementing them in the face of these competing pressures.

- c. What do you believe the Postal Service needs to do in order to ensure that whatever steps it takes to close or consolidate facilities in its processing and logistics network are consistent with its universal service obligation and with any existing strategies on related issues such as automation, worksharing, and personnel management?

The Postal Service must first consider the impact on customers. The commitment to universal service, revising the infrastructure, and any other decisions must be made within the context of customer service. New technologies and new processes will help in this process. The Postal Service had great success in automating its processing of letter mail. It is currently making similar strides with flat mail. These efforts will help the Postal Service as it continues to right-size its workforce and reduce its processing network by increasing productivity and maintaining or improving customer service.

IV. Relations with Congress

29. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Yes

30. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

Yes

V. Assistance

31. Are these answers your own? Have you consulted with the USPS or any interested parties? If so, please indicate which entities.

These answers are my own. I consulted with the Postal Service's Government Relations department as I developed my responses.

AFFIDAVIT

I, Louis J. Guiliano, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.



Subscribed and sworn before me this 12th day of April, 2005.


Notary Public

Michael D. Pierce
Notary Public, District of Columbia
My Commission Expires 04-14-2006

**Post-Hearing Questions Submitted by
Senator Daniel K. Akaka
For the Nomination of Louis J. Giuliano to be
Governor of the United States Postal Service
May 19, 2005**

1. As you know, the Postal Service is one of the most heavily unionized enterprises in the country. Would you please describe any experience you have had with unions in your business career, and will you be open to working with the leaders of the different postal unions if you are confirmed to be a member of the USPS Board of Governors?

Throughout my career, I have worked with unionized and non-unionized workforces and so I have experience in both environments. I have worked with the labor-relations professionals who were responsible for dealing directly with the union representatives. I have been responsible for setting goals and parameters for negotiations and then have overseen the progress and outcomes of those negotiations.

While I believe it is management's responsibility to work directly with the unions, I do believe it is an appropriate and necessary responsibility for a Board member to meet with union representatives as appropriate and understand their issues and concerns.

2. In your written pre-hearing questions relating to labor-management, you stated that "The Board's role is in setting the tone for positive work environment and making sure that management is able and committed to creating a positive work environment. What actions will you take, if confirmed, to do this?

I would periodically review the status of the labor-relations relationship and regularly reinforce the need to maintain a positive work environment. I would also work with the Board to ensure that senior management is sensitive to, and capable of, creating and maintaining good labor relations. Importantly, a key selection criterion for senior management positions should be a candidate's demonstrated ability to work effectively with unions.

3. The Postal Rate Commission's Periodic Reporting Rule requires the Postal Service to file certain basic financial data as soon as its standard financial reports are compiled, rather than withholding the information until a rate case is filed. The PRC reporting rule was revised in 2003 to require more up-to-date data. However, the Postal Service has refused to comply with the 2003 revisions and in 2004 argued that Congress did not intend for the Postal Service to make relevant, periodically produced information available to the public when no rate case was pending.

Do you support the view that information that the Postal Service uses to develop its standard financial reports should be withheld from the Postal Rate Commission and the public if no rate case is pending, and if so, what is the basis for your response?

The revisions to the periodic reporting rules would require more frequent production of detailed and voluminous financial information. Although the Postal Service did provide some additional information, I understand that other information was withheld. First, the Commission's revised rules contemplated the immediate posting on its website, of all information produced, regardless of its commercial sensitivity. Second, the Postal Service does not agree that such detailed information need be supplied annually or more frequently in order for the Commission to fulfill its statutory responsibility of reviewing specific requests for changes in rates initiated by the Postal Service.

As I mentioned during my nomination hearing, I believe the Postal Service is very transparent. It provides significant financial data monthly that is not reported by any private sector business I know. I believe that the Postal Service's current transparency should be acknowledged and balanced against the significant burden posed by these requirements.

4. I understand that the Postal Service recently refused to comply with Postal Rate Commission rules relating to making certain basic background financial data public, as I mentioned above. The purpose of the revised rule to require information between rate cases is so that mailers and the Postal Rate Commission can evaluate more quickly Postal Service rate requests. Was the Board of Governors consulted before the decision to withhold information was made? If confirmed, do you believe it is the role of the Governors to approve or disapprove of such actions?

The Board of Governors has been consulted during the course of these on-going discussions. Because the new rules would significantly expand the Postal Service's data production and potentially affect the Postal Service's commercial interests, it was appropriate for the Board to review the Postal Service's response to those rules.

5. Do you believe that compliance with the Commission's Periodic Reporting Rules would give mailers who participate in rate cases an unfair advantage? If so, is the decision to withhold the information intended to preserve a litigation advantage for the Postal Service in rate cases? If not, please explain why the Postal Service needs to withhold this information when it is eventually made public in a rate case?

The intention was to preserve the statutory balance between the Commission and the Postal Service, and prevent the premature disclosure of commercially sensitive financial information. The Postal Service understands the need for disclosure during rate proceedings, so that the Commission can weigh the evidence in support of the specific rate proposal. I understand that the Postal Service has opposed such disclosure as unnecessary and counter-productive when no specific rate proposal is before the Commission.

**Post-Hearing Questions Submitted by
Senator Joseph I. Lieberman
For the Nomination of Louis J. Giuliano to be
Governor of the United States Postal Service
May 19, 2005**

1. Postal employment is a relatively hazardous form of federal employment. These hazards have always included dog bites, repetitive motion injuries, and motor vehicle accidents. And in the last few years, we have seen that postal workers are vulnerable to certain terrorist acts such as the mailing of anthrax. What do you believe should be done to make working for the Postal Service safer?

The Postal Service, in conjunction with its unions, has instituted a number of initiatives which have reduced the Occupational Safety and Health Administration (OSHA) injury and illness rate by almost 14%. The Postal Service has worked very hard to develop a good working relationship with OSHA. In areas where the Postal Service has identified an issue, it has reached out to its unions and OSHA to develop a workable solution. The Postal Service has also launched a dog bite awareness campaign, using actual letter carriers, to highlight the danger posed to our employees. In addition, with Congressional support and funding, the Postal Service developed and is installing biohazard detection equipment and ventilation and filtration equipment on its processing and distribution equipment.

The Board will oversee management's effort to ensure these, and other, programs continue. The Board's responsibility is to regularly review the Postal Service's safety record and the status of their safety programs. One way this is accomplished is through the annual National Performance Assessment goal setting process, as one of the goals is a continuous improvement in OSHA injury and illness rates.

2. In its pre-hearing policy questionnaire, this Committee asked what you thought the Board of Governors can do to encourage and facilitate greater cooperation between postal managers and labor unions. You and Governor Gallagher provided very similar answers regarding the appropriate role for the Board. You responded that the Board's role is in setting the tone for a positive work environment and in making sure that management is able and committed to creating such an environment, and Governor Gallagher responded that the Board's role should be to make good labor-management relations a priority, and to hold management accountable for achieving them.

a. To follow up on these answers, what do you believe should be the role of the Board of Governors specifically in the area of collective bargaining? To what extent should the Board provide goals or instructions to postal managers responsible for collective bargaining, and to what extent should the Board leave discretion to managers? Insofar as the Board holds managers accountable in the area of collective bargaining, how do you believe success in collective bargaining should be defined?

It is the responsibility of the Board to provide guidance and goals for management in the collective bargaining process. However, the details of those negotiations should be left to management, who has the working relationship with the unions. I believe successful collective bargaining results when both parties believe their issues were addressed and each side received the respect they deserve.

b. USPS collective bargaining agreements have, for many years, included provisions protecting employees against layoff. According to the report of the President's Commission, a majority of the Commission favored legislation to prohibit the Postal Service from agreeing to this kind of protection against layoffs for future employees. However, I understand that management of the Postal Service did not want to lose the flexibility of offering such layoff protection in collective bargaining agreements. What is your opinion of this view advanced by a majority of the Commission? Do you believe the Board of Governors should instruct postal managers responsible for collective bargaining whether they should or should not offer protection against layoffs as part of collective bargaining agreements, or do you believe

the Governors should leave that decision to management?

No, I do not agree with the suggestion that legislation should be enacted to prohibit protection against layoffs. I believe that this should be an issue available to the parties for bargaining. During negotiations, a variety of elements are considered and traded-off by both sides. A collective bargaining agreement should be viewed in its entirety, not by its inclusion or exclusion of a single issue.

c. What do you believe should be the respective roles of the Board of Governors and of Postal Service management in the process by which postal workers' wages are negotiated?

The Board should advise management in developing the strategic goals to be accomplished during the negotiations. However, the actual negotiations should be handled by management.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. **Name:** (Include any former names used.)
Tony Hammond
2. **Position to which nominated:**
Postal Rate Commission
3. **Date of nomination:**
November 15, 2004
4. **Address:** (List current place of residence and office addresses.)
1333 H Street NW
Washington, DC 20268
5. **Date and place of birth:**
April 13, 1956
Humansville, Missouri
6. **Marital status:** (Include maiden name of wife or husband's name.)
Divorced.
7. **Names and ages of children:**
None.
8. **Education:** List secondary and higher education institutions, dates attended, degree received and date degree granted.

1974-1978	1971-1974
Southwest Missouri State University	Weaubleau R-3 High School
Springfield, MO	Weaubleau, MO
Bachelor of Science Degree, May 1978	High School Diploma, May 1974
9. **Employment record:** List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)

Postal Rate Commission, Washington, DC Commissioner/Vice Chairman	2002-present
T.Hammond Company, LLC, Arlington, VA Owner/Managing Member	2000-2002
Forbes 2000, Inc., Irvine, CA/ Alexandria, VA Senior Consultant	1999-2000

Republican National Committee, Washington, DC
 Political Director 1998-1999
 Regional Field Representative 1995-1997
 Field Finance Director 1994-1995

Missouri Republican Party, Jefferson City, MO
 Executive Director/Finance Director 1989-1994

Congressman Gene Taylor (R-MO), Washington DC
 Legislative Director/District Assistant 1979-1989

10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with federal, State, or local governments, other than those listed above.

None.

11. **Business relationships:** List all positions currently or formerly held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

Feather, Larson & Synhorst, LLC
 St. Paul, MN
 Consultant

National Republican Congressional Campaign Committee
 Washington, DC
 Consultant

T. Hammond Company, LLC
 Arlington, VA
 Owner/Managing Member

Freda's LLC
 Lincoln, MO
 Member

12. **Memberships:** List all memberships and offices currently or formerly held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.

None.

13. **Political affiliations and activities:**

- (a) List all offices with a political party which you have held or any public office for which you have been a candidate.

Greene County Missouri Republican Central Committee Member 1978-1979

- (b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Contained in answers to question #9.

- (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.

2000	
Missourians for Matt Blunt (Secretary of State)	\$200
Michel for State Representative (Florida)	\$100
George W. Bush for President	\$1,000
Todd Graves for Treasurer (Missouri)	\$200
Bailey for Lt. Governor (Missouri)	\$100
Sam Graves for Congress (Missouri)	\$200
Akin for Congress Committee (Missouri)	\$200
Missouri Republican Party	\$100

2001
None.

2002
Jim Talent for U. S. Senate Committee (Missouri) \$100

2003
Haley Barbour for Governor Committee (Mississippi) \$1,000
Kit Bond for U. S. Senate (Missouri) \$1,000

2004
Missourians for Matt Blunt (Governor) \$500
Bush-Cheney 2004 \$2,000

14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

Phi Alpha Theta National History Honor Society
Pi Sigma Alpha National Political Science Honor Society

15. **Published writings:** List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written.

None.

16. **Speeches:** Provide the Committee with four copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated.

Speeches Attached: IDEAlliance Conference, March 26, 2003
National League of Postmasters, August 3, 2004

17. **Selection:**

- (a) Do you know why you were chosen for this nomination by the President?

Because of my current service on the Postal Rate Commission, the President knew that I would continue to handle all cases and issues that come before the Commission in a fair, impartial and responsible manner. I have maintained the high ethical standards the President has set for all nominees for service in the federal government and will continue to work toward the best interests of all parties involved in any changes in postal rates, fees and classifications.

- (b) What do you believe in your background or employment experience affirmatively qualifies you for

this particular appointment?

In addition to my two years as a Postal Rate Commissioner, my prior experience involved several years in the direct marketing field. Also, my ten years work on Capitol Hill was for the then-Ranking Member of the House Post Office and Civil Service Committee. In those positions I have dealt with the diverse interests affected by postal rates and classifications. This provides me with a good background for dealing with the cases and issues that will come before the Postal Rate Commission.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?
Nominated to continue as Postal Rate Commissioner. No other connections or relationships of this nature exist.
2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.
No.
3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?
No.
4. Has anybody made a commitment to employ your services in any capacity after you leave government service?
No.
5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?
Yes.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.
None.
2. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy other than while in a federal government capacity.
None.

3. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. To your knowledge, have you ever been investigated, arrested, charged or convicted (including pleas of guilty or nolo contendere) by any federal, State, or other law enforcement authority for violation of any federal, State, county or municipal law, other than a minor traffic offense? If so, provide details.

No.

3. Have you or any business of which you are or were an officer, director or owner ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No.

4. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

E. FINANCIAL DATA

All information requested under this heading must be provided for yourself, your spouse, and your dependents. (This information will not be published in the record of the hearing on your nomination, but it will be retained in the Committee's files and will be available for public inspection.)

AFFIDAVIT

Tony HAMMOND being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Subscribed and sworn before me this

14th

day of

DEC

, 20004

Tony Hammond

Mark D. Acton

Notary Public

MARK D. ACTON
MY COMMISSION EXPIRES:
OCTOBER 14, 2009



United States
Office of Government Ethics
1201 New York Avenue, NW., Suite 500
Washington, DC 20005-3917

November 18, 2004

The Honorable Susan M. Collins
Chair
Committee on Governmental Affairs
United States Senate
Washington, DC 20510-6250

Dear Madam Chair:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Tony L. Hammond, who has been nominated by President Bush for the position of Commissioner of the Postal Rate Commission.

We have reviewed the report and have also obtained advice from the Postal Rate Commission concerning any possible conflict in light of its functions and the nominee's proposed duties.

Based thereon, we believe that Mr. Hammond is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marilyn L. Glynn".

Marilyn L. Glynn
Acting Director

Enclosure

**U.S. Senate Committee on Homeland Security and
Governmental Affairs
Pre-hearing Questionnaire for the
Nomination of Tony Hammond to be
Commissioner, Postal Rate Commission**

I. Nomination Process and Conflicts of Interest

1. Why do you believe the President nominated you to serve as Commissioner of the Postal Rate Commission (PRC)?

The President knows from my service on the Postal Rate Commission since 2002, that I have handled all cases and issues before the PRC in a fair, impartial and responsible manner. I will continue to maintain the high ethical standards the President has set for all nominees for service in the federal government. I will work toward the best interests of all parties involved in any changes in postal rates, fees and classifications.

2. Were any conditions, expressed or implied, attached to your nomination? If so, please explain.

No.

3. What specific background and experience affirmatively qualifies you to be Commissioner?

I am currently serving my third year as a Commissioner of the Postal Rate Commission. In previous positions, I developed mail marketing programs and have several years in direct marketing experience in the private sector. I also spent ten years on the staff of a former ranking Member of the House of Representatives postal oversight committee, where I focused extensively on postal issues.

4. Have you made any commitments with respect to the policies and principles you will attempt to implement as Commissioner? If so, what are they and to whom have the commitments been made?

No.

5. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict

of interest? If so, please explain what procedures you will use to carry out such a recusal or disqualification.

As a currently serving Commissioner, my activities are annually reviewed by our ethics officer and constantly monitored. I do not maintain any connections with any firms or organizations which would cause me to recuse or disqualify myself because of a conflict of interest or the appearance of a conflict of interest.

II. Role and Responsibilities of Commissioner

6. How do you view the role of Commissioner of the PRC?

The role of a Commissioner is to serve as a fair, independent arbiter of the solvency of the U. S. Postal Service in all cases before the Commission. While considering potential changes in postal rates, fees and classifications, the Postal Rate Commission provides concentrated analysis on the costs, revenues and volumes of the Postal Service. Accuracy in these areas is essential to the PRC being able to recommend fair postal rates and fees while taking into account the positions of all parties in any rate case.

7. What qualifications and experiences would you bring to the role of Commissioner?

As stated above, I am in my third year as a Postal Rate Commissioner, currently serving as Vice-Chairman. In previous employment, I was responsible for mail and direct marketing programs.

In those positions, combined with my ten years' work on Capitol Hill, I have interacted with practically everyone who is affected by postal rate changes. From the Postmaster General's office and the postal unions to representatives of the mailing industry, shippers and postal competitors, I have dealt with the diverse interests who were concerned with postal rates and the U. S. Postal Service. It provides me with a good background for understanding the issues facing all in the postal community.

8. What challenges currently face the PRC and how would you, as Commissioner, address these challenges?

From an organizational standpoint, the Postal Rate Commission functions efficiently. The PRC has an experienced, respected staff with an ability to provide in-depth analysis. We also have an impartial hearing process that has worked well.

As for challenges, we must make sure that the Postal Rate Commission responds in a timely manner to both stakeholders and the USPS. We must give every opportunity for all interested parties to be heard before us.

9. What do you think should be the PRC's top priorities?

The Postal Rate Commission's priority must be accommodating a changing postal environment and we have done that in several instances. For example, we have initiated rulemakings that streamline the administrative process. We have also worked to see that the amount of information the Postal Service provides is sufficient to assist stakeholders and the public in being able to participate effectively in our proceedings.

The PRC must also be responsive to any legislative changes which may alter the rate-making process. It must be a PRC priority to implement new regulatory requirements and responsibilities in a timely manner.

10. How do you plan to coordinate and communicate with PRC staff to accomplish your priorities?

There is a good working relationship between the Commissioners and PRC staff. With the Chairman's direction, the interaction between staff and Commissioners is beneficial in getting our jobs done. I have always had PRC staff communicate directly with me on any issue before us and will continue to do so in the future.

11. What contributions do you hope to make during your tenure at the PRC?

I will continue in my role as an active, full-time Commissioner to see that all cases and issues before the Commission are taken care of in the fair and responsible manner that participants have every right to expect.

III. Policy Questions

Postal Ratemaking

12. The postal ratemaking process has been frequently criticized for being too cumbersome, taking too long, and being too adversarial to best serve the financial interests of the Postal Service. Do you agree and, if so, what administrative changes do you think the PRC could make to improve the postal ratemaking process?

I am familiar with the concerns that have been expressed. However, while the current ratemaking process does take time, it was established to ensure that the

views of everyone affected by comprehensive and complicated rate change requests are taken into account. The Commission must be responsible for ensuring that it does not burden the Postal Service or postal stakeholders by inaction once a rate change request comes to it. To be fair to all parties, those matters must be handled in a timely manner.

Over the years, postal ratemaking has become increasingly complex. The Postal Rate Commission has responded by taking several administrative steps since the last rate case to make it easier for the public and the Commission to understand and analyze the Postal Service's data between rate cases.

Unfortunately, the Postal Service has stated that it will not comply with the requirement that it report new methodologies and data used to prepare the annual CRA report, because it objects to the Commission's practice of making materials filed with it available to the public. In response, the Commission issued an advance notice of proposed rulemaking [RM2005-1, November 8, 2004] outlining the dispute and inviting comments from interested parties. Among other things, the notice notes that the Commission has successfully used protective conditions in response to legitimate claims of trade secrets or other commercially sensitive information. The Commission is requesting interested persons to suggest what policies or principles should guide the Commission in this matter, as well as to suggest changes to the Commission's rules to address the situation.

13. Congress is considering proposals to change the postal ratemaking process from the current cost-of-service model to other models such as a price-cap system. What are your views on the advantages or disadvantages of moving to a price-cap system to set postal rates?

A price cap mechanism in a reformed ratemaking system might shorten the ratemaking process and provide the Postal Service flexibility to meet the needs of all its customers. However, to be effective, it is important that the price cap be established in such a way that it provides a real incentive for the Postal Service to increase efficiencies.

A price cap should allow for exigent rate changes only if extraordinary circumstances were to threaten the Postal Service's financial stability. To make sure that the system is not abused, exigent rate changes for market-dominant products need to be approved by the regulator. Finally, I would recommend that any price cap be reviewed periodically and adjusted if it is either too loose or too tight.

14. Some parties have criticized the quality and timeliness of data used by the Postal Service to support proposed rate increases. Are changes in the current ratemaking process needed to incorporate more timely information? What do you believe

should be the role of the PRC in ensuring that the quality and timeliness of the Service's data is adequate?

The quality and timeliness of the data received by the Commission has been questioned. It is extremely important for the Postal Service to provide accurate, detailed, and timely information to the Commission or the PRC cannot effectively do its job in ratemaking cases and carry out the job that Congress gave it. I have worked toward that goal as a Commissioner.

As I mentioned before, we have administratively asked the Postal Service to increase the amount of information it submits between cases. The benefits of the Postal Service providing this information are obvious. It allows the Commission and all parties to be familiar with the standard cost and revenue reports on which much of any rate filing is based. This reduces the need for discovery and can shorten rate hearings.

The rulemaking also enables the Commission to analyze the accuracy of the cost, volume and revenue projections on which the current rates are based. Plus, if the information shows that cross-subsidies or other rate inequities exist, affected parties will have the basis for asking the Commission to investigate the matter and fashion remedies.

I hope that the Postal Service will be responsive to the need for complying with these regulations and provide this information.

15. Some mailers have proposed changing the basis for setting rates for postal products and services from the current subclass-based costing method (under the current regulatory framework, rates are designed to cover attributable costs, plus a markup of a share of the non-attributable, institutional costs) to a "bottom-up" approach that would be based on the costs of resources consumed through services provided at various points of access to the postal network. Do you think a "bottom-up" costing approach would be better than the current costing method—why or why not?

Since the inception of worksharing, the Postal Rate Commission has generally had the goal of setting the discount for worksharing equal to the cost avoided. This usually results in the lowest combined cost to the mailer and the Postal Service. This approach makes it possible to establish discounts for worksharing mailers without raising the price for mailers who do not workshare.

There are instances where the PRC has been able to utilize bottom-up pricing in certain subclasses, where mail within the particular subclass with the same characteristics has the same unit contribution. However, in many situations, there isn't reliable data to be able to isolate relevant costs.

I welcome proposals to further divide certain subclasses, as long as the data quality is reliable and the correct distinguishing characteristics are used.

16. Some have raised concerns about whether the Postal Service work-sharing discounts are adequately covering the expected cost savings. How would you address these concerns – whether by legislation, or otherwise?

I don't know that specific legislation is necessary in this area. Since the inception of worksharing, the Commission's goal has been to set the discount for worksharing equal to the cost avoided. I am committed to a goal of isolating avoided costs accurately enough to achieve 100% cost avoided equal to the discount. In almost all instances, I feel we have isolated costs accurately enough to achieve our goal.

In some cases, there are exigent circumstances, where the Commission can not achieve this goal but these cases are rare. If the Commission is short of data, we request more information from the Postal Service to address ambiguities. Of course, in every rate case, the Commission improves its financial models to more accurately estimate costs. It's an issue of fairness.

Postal Reform

17. What are your views on whether changes are needed to the role of the PRC as part of postal reform to strengthen its regulatory oversight responsibilities?

Depending on what postal reform the Congress might enact, the Postal Rate Commission will have to adjust to meet the new responsibilities. If the goal in postal reform is to provide the U. S. Postal Service with more flexibility in rate making, regulatory oversight by the PRC will be necessary. Stringent reporting requirements and financial accountability are essential. The PRC will be the only place those affected by rate changes can go to seek review.

18. Do you think that universal postal service needs to be more precisely defined, and if so, what contribution could the PRC make to defining universal service?

If asked to precisely define universal postal service, the Postal Rate Commission has some expertise in what factors should go into such a definition. However, because universal service touches so close to home for every single American household, the views of the elected representatives of the people should be predominant in any attempt to define universal service.

19. Recent legislative reform proposals, such as S. 2468 from the 108th Congress, are intended to eliminate traditional rate cases, to set baseline rates for non-competitive postal services in an expeditious administrative process based on clear guidelines using a specified rate adjustment factor, and to make rate changes subject to after-the-fact review by an independent postal regulator. Would you be in favor of this reform proposal, why or why not?

Legislative reform is necessary if the Postal Service is to survive in the future. The Postal Service deserves the flexibility necessary to succeed if it is to remain a viable and valuable institution. Along with that, because it is a government monopoly, USPS has extra-special responsibilities to be accountable to stakeholders and the American public.

The reform legislation from the last Congress provided for necessary modernization of the rate-making process. The provisions that provide for review by a strengthened independent postal regulator, such as a Postal Regulatory Commission, are an essential part of that reform. I hope that any legislation passed by the Congress will continue to provide safeguards along with the modernization of the rate-making process.

20. What key statutory or regulatory mechanisms are needed in the postal rate-setting process to protect postal customers against undue discrimination and to ensure due process?

An independent PRC is statutorily necessary to protect postal customers in the rate-making process. The Commission should serve as the place complaints about rate changes are brought. However, without financial transparency by the Postal Service, investigation of any complaint would be severely hindered. Specifically, subpoena power for the PRC is essential if the Commission is expected to protect against undue discrimination and to ensure due process.

21. The Presidential Commission on the Postal Service suggested that the Postal Service should not have the authority to define and change the scope of its monopoly over the delivery of letter mail and access to mailboxes. Should the authority for making changes to the postal monopoly be given to the regulator, why or why not? What principles should guide these decisions?

The Postal Rate Commission, or subsequent regulator, would have some expertise to deal with the issue of the Postal Service monopoly over the delivery of letter mail and access to mailboxes. Again, however, it is an issue that has the potential for touching every American household. Our elected representatives are best able to determine that.

Once the Congress establishes monopoly limits, a third-party regulator, rather than the Postal Service, should have the responsibility for interpreting the will of the Congress.

22. Some postal stakeholders have suggested that the PRC should have a stronger role in establishing performance standards for postal products and services and for monitoring the Service's results in meeting these standards. What are your views in this area?

Much like the President's Commission recommended, a regulator should be given jurisdiction over proposed changes in service standards that may have a substantial negative national impact. To prevent against potential erosion in service levels that might result from cost-cutting programs, the regulator should also have authority to ensure that appropriate levels of service are maintained. The regulator could accomplish this through regular audits of service performance and by considering complaints of postal customers.

23. Many postal stakeholders have raised concerns about the adequacy of the Service's financial transparency. How can the Postal Service improve the transparency and accountability of its financial and operational performance?

Since it is a government monopoly, USPS has an extra responsibility to be responsive to its stakeholders. Transparency is the only way for the Postal Service to keep the public trust.

The Postal Rate Commission has amended its rules applicable to filing periodic reports by the Postal Service. Our order increased the amount of information the Postal Service submits between rate cases to assist the Commission and foster effective public participation in proceedings before the Commission. Unfortunately, the USPS has been uncooperative in providing the information, so I can certainly understand stakeholders' concerns about the adequacy of the Postal Services' financial transparency.

24. Are there legislative changes that Congress should consider to enhance the Service's transparency and accountability and if so, what changes may be needed? What should be the regulator's responsibilities in this area?

In any postal reform proposal, at a minimum, the Congress should consider that USPS file financial information at least as transparent as any business that is required to file with the SEC. Providing a Postal Regulatory Commission with subpoena power statutorily would also enhance the Postal Service's transparency and accountability so the situations like I outlined in response to question 23 would not occur.

25. One area of debate has focused on what type of new products and services the Postal Service should be allowed to provide. What are your views on this issue? What role do you believe that the PRC should play in the introduction or pricing of new products and services?

The Postal Rate Commission has been actively dealing with this issue for some time. When the Postal Service goal has been to provide additional services relating to their core mission of delivery of the mail, we have encouraged them to bring experimental cases and new classes before us.

For example, the PRC is in the final stages of acting on a USPS request to provide premium forwarding service to customers who typically spend a substantial amount of time at temporary addresses and want their mail to follow them. Plus, last year, the PRC approved a Postal Service request for Priority Mail Flat Rate Box service, which makes customer shipping more convenient. I welcome USPS proposals to provide new services as long as it relates to the core mission of delivery of the mail.

26. Another concern has focused on the Postal Service's activities in the competitive marketplace. What role, if any, do you believe that the PRC should play in ensuring "fair competition?"

While the Postal Service must consider their options to be a fiscally viable entity, I do not see why it should increase its competition with private sector companies. Private enterprise does a good job of providing those services the public demands.

The Postal Rate Commission should consider the effect on private sector companies, along with everyone else affected, in evaluating proposals from the Postal Service.

Post Office Closings and Relocations

27. In your opinion, does the existing process for closing and relocating post offices adequately protect the interests of postal customers and the affected communities?

As long as the Postal Service retains its monopoly status, extra care must be taken to see that the views of the affected communities in the closing and relocating of post offices are fully considered.

The regulations governing the discontinuance and relocating of existing post offices provide for a specific appeals process and the Postal Rate Commission must see that this appeals process is fully followed.

28. Does the process for closing and relocating post offices need to be improved? If so, how, and are legislative changes needed?

Commission authority is rather limited in this area. More focus should be placed on the notice process so that the affected community is aware of the timing and appeals options. As an agency of the federal government, the Postal Service should be sensitive to the needs of the communities it serves, while balancing those needs against the costs which must be borne by ratepayers.

IV. Relations with Congress

29. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Yes.

30. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

Yes.

V. Assistance

31. Are these answers your own? Have you consulted with the PRC or any interested parties? If so, please indicate which entities.

The answers are my own. I have not consulted with the PRC or any interested parties.

AFFIDAVIT

I, Tony Hammond, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.

Tony Hammond

Subscribed and sworn before me this 30th day of March, 2005.

Mark D. Acton

Notary Public

MARK D. ACTON
MY COMMISSION EXPIRES:
OCTOBER 14, 2008

**Questions for the Record for Tony Hammond
Re-nominated to Serve as a Commissioner on the Postal Rate Commission
Submitted by Senator Daniel K. Akaka
Committee on Homeland Security & Governmental Affairs
May 19, 2005**

1. You mentioned there have been recent initiatives by the Postal Rate Commission to facilitate rate cases. As you know, a rate request is currently pending before the Commission. Have the steps taken by the Commission been as successful as you hoped they would be, and what more could be done by the Commission under current law?

At the Joint Postal Service/Postal Rate Commission Summit held in 2002, mailers urged that more analysis of costing issues between rate cases could further expedite and simplify postal ratemaking. To be responsive, the Commission revised its Periodic Reporting Rule to require the Postal Service to provide the new datasets and new, more sophisticated data analyses that it now uses to develop its standard financial reports.

I was disappointed that the Postal Service opposed changes that would require it to make non-sensitive information public. It is a government monopoly and realizes it has an extra-special duty to be responsive and open to the affected ratepayers. In 2003 the revised rules became effective. The Postal Service did not seek judicial review, and this information should have been available to help the Commission and the public to quickly and efficiently evaluate the current Postal Service rate request. Unfortunately, the Postal Service has chosen to refuse to comply with those rules.

Participants at the Joint Summit also suggested that the Postal Service be required to submit "roadmap" testimony, that is, testimony that would explain how each piece of Postal Service evidence is used to support either technical analyses or specific rate proposals. The Postal Service must also file testimony identifying methodological changes in costing, volume estimation and rate design, including the impact of such changes.

With the filing of the Omnibus Rate Case in April 2005, the Postal Service roadmap testimony has, I believe, proven successful. This testimony allows ratepayers to more quickly identify changes that affect them. It provides an understandable overview of how the thirty-three pieces of testimony filed by the Postal Service fit together and allows interveners and the public to more quickly and easily trace the development of proposed rates.

The roadmap testimony has been beneficial in the Omnibus Rate Case because of the cooperation of the Postal Service. USPS has assisted both interveners and the public in easily grasping the essential elements of the filing and allowing them to focus on issues of major concern.

2. A major focus of postal reform legislation is to improve the transparency of the Postal Service. Under current law, has the Commission been able to obtain timely access to the information it needs to carry out its responsibilities to mailers and the nation?

The Postal Rate Commission cannot effectively do its job if it does not receive accurate, detailed, and timely data. We have attempted to increase the Postal Service's financial transparency by adopting straightforward rules directing the Postal Service to provide relevant financial and operating reports in between rate cases. The main goal is to reduce the need for discovery and to shorten rate hearings.

While the Postal Service often is responsive to Commission requests for information, there are times when the Postal Service is unresponsive.

An example of the Postal Service being unresponsive occurred when it unilaterally refused to comply with Commission rules and make available the financial information it uses in preparing its annual Cost Revenue Analysis report. This information would have helped the Commission and the public to respond to the current Postal Service rate request more quickly and more effectively.

In addition, the Postal Service has not fulfilled its obligation to notify the Commission when it changes its basic data collection systems, or its cost distribution practices. This makes it far more difficult for the Commission to accurately evaluate its rate case estimates after the fact, and explore ways to improve them. The Postal Service also has refused to provide essential information in a recent complaint case, thereby preventing the Commission from evaluating the merits of the complaint.

3. Do you have any suggestions for legislative actions, short of the currently proposed legislation? What changes would you suggest?

Legislative reform is necessary if the Postal Service is to survive in the future. The USPS deserves the flexibility necessary to succeed if it is to remain a viable and valuable institution.

Along with that, because it is a government monopoly, the USPS has extra-special responsibilities to be accountable to stakeholders and the American public.

I would welcome specific legislation that would have the Postal Service provide relevant and material information that would help make the current ratemaking process both shorter and more effective. The Commission has long sought the ability to obtain judicial enforcement of its orders. The subpoena authority contained in S. 662, sec. 602, would allow the Commission to obtain necessary information while providing satisfactory protection to the Postal Service.